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THEORETICAL AND METHODOLOGICAL PRINCIPLES OF TRANSFER PRICING POLICY IN THE MARKETING SYSTEM IN THE CONDITIONS OF GLOBALIZATION

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The main purpose of the article is to study the evolution of theoretical and methodological approaches to transfer pricing in the context of marketing. In the context of constant economic transformation and technological changes, pricing processes are also undergoing changes under the influence of a number of economic, in particular globalization, factors. Therefore, there is a need for a comprehensive scientific analysis of changes in approaches to transfer pricing and in determining the globalization influences that shape its modern foundations.

The research methodology is based on a combination of general philosophical, special and interdisciplinary methods, as well as key scientific approaches - systemic, process and situational. Among the general scientific tools, analysis and synthesis were used to study the impact of globalization trends on changing the concept of transfer pricing in the marketing system. The method of theoretical generalization was used to classify the globalization factors that shape this concept

The scientific novelty of the obtained results lies in the substantiation and proof that transfer pricing in the context of globalization acquires the fundamental features of a marketing approach to pricing. It is proved that methodological approaches to transfer pricing belong to the group of marketing pricing methods.

The practical significance of the of the research results is the analysis of practical approaches to the use of transfer pricing methods and the formation of an economic mechanism for transfer pricing as part of marketing pricing policy. Generalization of the transfer pricing methodology, taking into account the methods of its legislative regulation.

Keywords: transfer pricing; globalization; marketing system; marketing pricing.

ТЕОРЕТИКО-МЕТОДИЧНІ ЗАСАДИ ТРАНСФЕРТНОГО ЦІНОУТВОРЕННЯ В СИСТЕМІ МАРКЕТИНГУ В УМОВАХ ГЛОБАЛІЗАЦІЇ

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Основна мета статті полягає в дослідженні еволюції теоретичних та методологічних підходів до трансфертного ціноутворення у контексті маркетингу. В умовах постійної трансформації економіки та технологічних змін процеси ціноутворення також зазнають змін під дією низки економічних, зокрема глобалізаційних, чинників. Тому виникає потреба в комплексному науковому аналізі змін у підходах до трансфертного ціноутворення та у визначенні глобалізаційних впливів, що формують його сучасні засади.

Методологія дослідження базується на поєднанні загальнофілософських, спеціальних і міждисциплінарних методів, а також ключових наукових підходів – системного та ситуаційного. Серед загальнонаукових інструментів використано аналіз і синтез для дослідження впливу глобалізаційних тенденцій на зміну концепції трансфертного ціноутворення у маркетинговій системі. Метод теоретичного узагальнення застосовано з метою класифікації глобалізаційних чинників, що формують цю концепцію.

Наукова новизна отриманих результатів полягає в обґрунтуванні та доведенні, що трансфертне ціноутворення в умовах глобалізації набуває принципових ознак маркетингового підходу щодо ціноутворення. Доведено, що методичні підходи трансфертного ціноутворення відносяться до групи методів маркетингового ціноутворення.

Практична значимість отриманих результатів дослідження полягає в аналізі практичних підходів щодо використання методів трансфертного ціноутворення, формування економічного механізму трансфертного ціноутворення як частини маркетингової цінової політики, узагальнення методології трансфертного ціноутворення з врахуванням методів її законодавчого регулювання.

Ключові слова: трансфертне ціноутворення; глобалізація; система маркетингу; маркетингове ціноутворення.

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INTRODUCTION

The concept of pricing is a key source of profit for an enterprise, the formation of which depends on many factors. The conceptual approach to pricing is based on the study and consideration of factors that influence the pricing methodology. The development and evolution of the pricing concept is directly dependent on the economic and technological structure prevailing in the economy. In turn, the economic environment is transformed under the influence of macroeconomic factors, among which globalization has the greatest influence. Today, globalization is characterized by the systemic integration of world markets and regional economies, all spheres of human activity, as a result of which accelerated economic growth is observed, the implementation of modern technologies and management methods is accelerated. At the same time, the changes caused by the processes of integration of economies are profound, affect all spheres of activity, and pose the task of bringing the social parameters of the development of society, its political structure, and macroeconomic management technologies into line. In recent years, globalization processes have had the greatest impact on the emergence of international competition, transaction costs, and transfer pricing. The latter two factors have directly influenced the transformation of the concept of pricing in the marketing system and the revision of its provisions.

LITERATURE REVIEW

The process of globalization, which has intensified significantly over the past twenty years, carries many contradictions and is the subject of lively discussions both among scientists and in business circles. Despite the general recognition of globalization as an integral stage of the development of the modern world [1], the scientific community has not yet reached a consensus on how globalization factors influence the transformation of approaches to pricing.

In the scientific literature, there are several points of view on globalization processes and their impact on economic dynamics. One of the first to pay attention to the change in the global economic landscape was Manuel Castells [2], who defined the global economy as one where its key elements are able to function as a single organism on a global scale in real time. He includes financial globalization, openness of markets for goods and services, the development of global information networks, as well as the blurring of boundaries in the scientific and technological environment as the main characteristics. At the same time, the role of state regulation is decreasing, and the focus is shifting to companies as the main economic players.

American researcher P. Rutland identifies six main features of globalization, four of which directly relate to the economy: the information and technological revolution, economic transformations, regionalization of the world economy, and the growing gap between developed and underdeveloped countries [3].

Based on the analysis of modern research, the following key characteristics of globalization can be distinguished:

1. The openness of countries to trade, financial flows, investments and information technologies has strengthened globalization trends.
2. Globalization processes are now caused by the reduction in the cost of communication, and not by transportation costs, as was the case before. This allows firms to locate production in different regions, while maintaining effective management.
3. The volume of international financial transactions has increased significantly, turning capital markets into global ones.
4. Transnational corporations (TNCs) today play a key role in the world economy: approximately 20% of products are produced by their branches, and a third of trade takes place between parent companies and subsidiaries. According to UN estimates, there are about 35 thousand TNCs with 150 thousand branches in the world.
5. Investments in globalization become more effective, as capital moves freely in search of more favourable conditions.
6. Globalization is closely linked to the technological revolution. A country's role in the world economy is increasingly determined by the quality of its human capital, the level of education, and the implementation of scientific and technological achievements.

Summarizing the above, we can conclude that the current stage of globalization is accompanied by fundamental changes in the structure of the world economy. If earlier the success of business was mainly determined by the effective combination of traditional factors of production, today the key role is played by the comprehensive use of knowledge, the integration of technological solutions, as well as the mobilization of capital, information and intellectual resources. Entrepreneurial activity is becoming less and less dependent on geographical location, while the need for access to quality information is growing. Innovation and investment have become the determining factors of successful development.

The above considerations are only a part of the existing approaches to understanding the origins and driving mechanisms of globalization. Some factors that determine globalization subordination directly affect modern approaches to pricing [4]. Among the most significant are the intensification of international competition and the growth of transaction costs. These factors have a decisive impact on economic systems in the context of globalization.

Even Michael Porter [5] in his works emphasized the importance of the influence of globalization processes on the strengthening of international competition, which, in turn, stimulated the transformation of transnational companies – from multilocal to global. A significant contribution of M. Porter was the improvement of the theory of

"value chain", according to which globalization allows placing individual stages of value creation in different countries. In addition, global production scales are a necessary condition for ensuring high investments in knowledge-intensive industries. However, at the same time they are accompanied by an increase in transaction costs.

The economic explanation of the nature of transaction costs was first provided by Ronald Coase. In his works [6, 7] he concluded that individual employees, acting autonomously, spend more time on the preparation and implementation of contracts, including management processes. The scientist proved that the classical microeconomic theory is limited, since it takes into account only production and transportation costs, ignoring organizational ones. R. Coase included in transaction costs: the costs of searching for information (on market prices, the behaviour of competitors and consumers), on negotiations, decision-making, concluding agreements and legal registration, as well as the costs of product quality control, dispute resolution, legal protection and risks associated with opportunistic behaviour of partners [6, c. 15–20].

Coase concluded that market interaction does not ensure the efficient use of information, and independent companies operate less efficiently. In contrast, centralized information exchange within a large corporation increases overall efficiency. Foreign direct investment, in this context, is considered as a tool for reducing transaction costs [7]. This approach is widely used in setting pricing policies in transnational companies, which ensures their high efficiency. Coase's transaction cost theory formed the basis of the internationalization theory, which is actively used in world markets. Its effectiveness is associated with reducing transaction costs and achieving economies of scale.

Economies of scale arise as a result of uneven growth of the company, which constantly attracts new resources [8, 9]. The rational use of these resources stimulates the expansion of activities. This approach contributes to the transformation of national companies into multinational corporations, which reduce production costs by increasing the scale and attracting new resources. However, it is worth considering that excessive scaling and tight control can lead to an increase in average costs.

A complement to the theory of internationalization, especially for high-tech corporations, is the theory of appropriation. It is based on the idea that companies with technological competitive advantages invest abroad in order to increase the efficiency of using their innovations.

From the point of view of the proponents of the theory of appropriation, in order to obtain maximum benefits from its technological advantages, it is more expedient for a company to establish full control over the production process, in particular to own enterprises on the basis of full ownership. In cases where a foreign division has several co-owners, there is a risk of losing technological advantages due to weakening of control [10]. If a multinational corporation is not confident in the possibility of maintaining the confidentiality of technologies in a foreign subsidiary, it may refuse to invest abroad at all.

Proponents of the theories of internationalization and appropriation emphasize that the main goal of foreign direct investment is not the pursuit of monopoly power, but to increase the internal efficiency of the production activities of a multinational corporation and maintain its leading position in the field of technology.

Another important theoretical approach to explaining the nature of foreign direct investment is tax theory. Within its framework, direct investment abroad is viewed as a means of optimizing taxation. According to this concept, multinational corporations reduce the tax burden in two main ways: first, by opening production facilities in countries with more loyal tax rates; second, by using transfer pricing to fix profits in jurisdictions with lower tax rates, even if the income was actually earned in countries with high taxes [11].

Thus, through transfer pricing mechanisms, transnational corporations can influence the level of taxable profit. In this regard, tax regulation of transfer pricing is often accompanied by competition between the states in which the structural divisions of TNCs are located to attract investments at the expense of tax advantages.

METHODS

The methodological basis of the article is a set of general philosophical and special methods, principles and techniques, the main methodological approaches (systemic, process, situational). General scientific methods: analysis and synthesis – to determine the impact of globalization processes on the transformation of the concept of transfer pricing in the marketing system; methods of theoretical generalization – to group the factors of the impact of globalization on the concept of transfer pricing in the marketing system.

The purpose of the article is to analyse the transformation of the theoretical and methodological foundations of transfer pricing in the marketing system. Taking into account constant economic changes and the transformation of the technological structure of the economy, the pricing mechanism also changes under the influence of many economic factors, which should also include factors of global subordination. That is why there is a need for scientific research into the transformation of the theoretical and methodological foundations of transfer pricing in the marketing system and the justification of globalization factors that influence its development.

RESULTS

Transfer pricing regulation usually refers to the taxation of profits of multinational companies that have a commercial presence in several tax jurisdictions. The main purpose of the distribution of profits of TNCs as a whole is to ensure a fair share of the tax base for each tax jurisdiction within which the relevant TNC unit operates. Based on this, the tax administrations of the countries concerned impose rather strict requirements on the procedure for

pricing TNCs for tax purposes. In the event of a taxpayer violating the established pricing rules, transfer pricing rules apply.

The main purpose of applying transfer pricing is to "transfer" the tax base to an affiliated entity that is in a more favourable tax regime. These include various tax preferences, in particular, the availability of offshore resident status, the provision of tax holidays, the application of preferential tax rates, the right to use other tax benefits. At the same time, such a transfer is usually carried out by manipulating the price of transactions. Another reason for using the transfer pricing mechanism is double taxation, which is distributed in favour of the foreign participant in the profit.

Let's consider an example when an agreement is concluded between two independent companies at an undercutting of the price. Suppose that the production costs of a product in country A are \$100, the export price is \$150. Therefore, the profit will be \$50. At the same time, the corporate income tax in country A is 40%, and in the country of the importer B – 20%. Then, in country A, company X must pay a tax of \$20 on its profit of \$50. In this case, its net profit will be \$30. In the country of the importer, company Y imports the product for \$150 and sells it domestically for \$180, that is, the profit will be \$30, and after paying the tax (20%) – \$24. In total, the company's profit will be \$54 (Table 1).

Table 1.

Scheme of an agreement between two independent companies when the price is lowered			
Exporter Country A (Company X)		Importer Country B (Company Y)	
Export price, USD	150	Import price, USD	150
Production costs, USD	100	Selling price, USD	180
Profit before tax, USD	50	Profit before tax, USD	30
Corporate tax, (40%)	20	Corporate tax, (20%)	6
Profit after tax	30	Profit after tax	24
Total profit of companies = 54 USD			

If the agreement is concluded between companies related by capital relations (affiliated companies) at a price understatement, then the transfer pricing mechanism will be as follows. Suppose that company Y is a subsidiary of company X. The parent company X will sell its goods at prices lower than in the first case, for example, for \$ 120 and will receive a net profit of only \$ 12. However, the subsidiary will receive in this case a much larger profit of \$ 60, which after deducting tax (20%) will be \$ 48. Thus, the profit of the two companies will be \$ 60, which exceeds the net profit received in the first case by \$ 6. This additional profit is the result of the transfer pricing mechanism (Table 2).

Table 2.

Scheme of an agreement between affiliated companies when the price is lowered			
Exporter Country A (Company X – parent company)		Importer Country B (Company Y - subsidiary)	
Export price, USD	120	Import price, USD	120
Production costs, USD	100	Selling price, USD	180
Profit before tax, USD	20	Profit before tax, USD	60
Corporate tax, (40%)	8	Corporate tax, (20%)	12
Profit after tax	12	Profit after tax	48
Total profit of companies = 60 USD			

This total profit is sent to a profit management centre located in a low-tax country, from where companies are reinvested in accordance with the strategic plan for conducting international business of the TNC as a whole.

A situation is possible when the total profit of a transnational corporation will increase when prices are overstated. The calculation of the profit that was obtained as a result of transfer pricing is presented in Table 3.

Table 3.

Scheme of a transaction between two independent companies when prices are overstated			
Exporter Country A (Company X)		Importer Country B (Company Y)	
Export price, USD	150	Import price, USD	150
Production costs, USD	100	Selling price, USD	180
Profit before tax, USD	50	Profit before tax, USD	30
Corporate tax, (20%)	10	Corporate tax, (40%)	12
Profit after tax	40	Profit after tax	18
Total profit of companies = 58 USD			

The situation when a company that exports products is more profitable to overstate prices in order to leave a large profit in its country, where the tax conditions are more favourable, is considered in Table 4.

The calculation shows that in a country where the tax level is low, it is more profitable for an affiliated company to sell goods at a low price, and in a country where the tax level is high, on the contrary, at an overstated price. The level of the transfer price is carefully calculated. The transfer price should not be too low to motivate the production unit, which could sell this product on the domestic market, selling it through a traditional sales network.

The calculation also shows that it is more profitable for an affiliated company to sell goods at a low price in a country with a low tax rate, and vice versa, at a high price in a country with a high tax rate. The level of the transfer price is carefully calculated. The transfer price should not be too low to motivate the production unit, which could also sell this product on the domestic market, selling it through a traditional sales network.

Table 4.

Scheme of an agreement between affiliated companies in the event of price overpricing

Exporter Country A (Company X - parent company)		Importer Country B (Company Y-subsiidiary)	
Export price, USD	180	Import price, USD	180
Production costs, USD	100	Selling price, USD	200
Profit before tax, USD	80	Profit before tax, USD	20
Corporate tax, (20%)	16	Corporate tax, (40%)	8
Profit after tax	64	Profit after tax	16
Total profit of companies = 80 USD			

In order to maintain the level of competitiveness of the division in foreign markets, the transfer price should not be too high. On the other hand, the price in the foreign market should not be lower than the domestic price for a similar product in the exporter's country, otherwise competitors in the importer's country may accuse the company of dumping. In addition, when calculating the transfer price, legal and administrative restrictions in the relevant countries are taken into account regarding the level of deviation of the foreign trade price from normal world prices. Any of the companies included in one TNC may incur losses when implementing the transfer pricing mechanism, but will not go bankrupt, since the total amount of cumulative profits is taken into account.

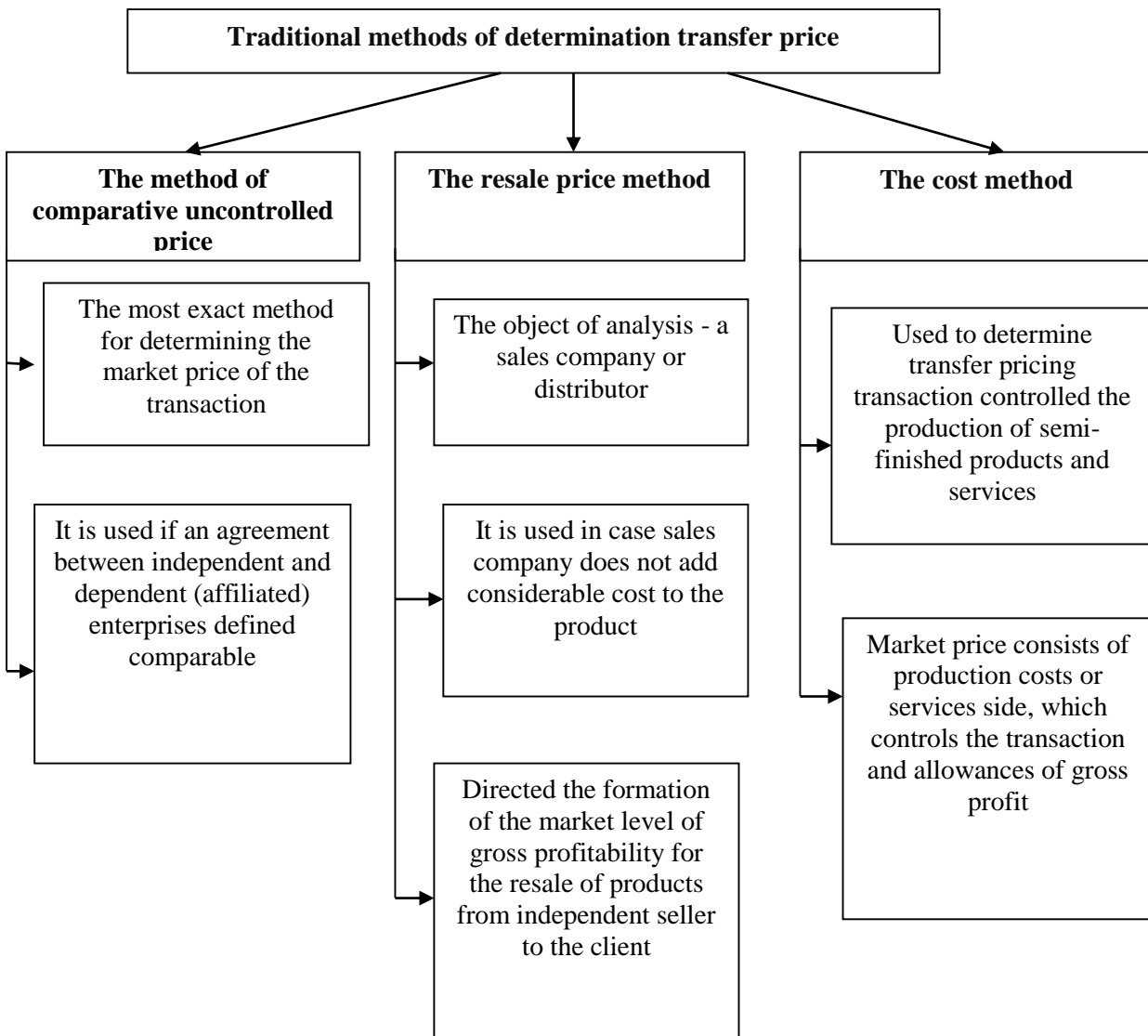


Fig. 1. Traditional methods of determining transfer pricing [12]

Thus, it can be said that, by their very nature, offshore companies derive income from tax base manoeuvring. In offshore business, the centre of tax planning is the company's profit centre, which is located in the offshore zone. In a broad sense, business conducted in the offshore zone is based on transactions with intra-firm price regulation. It is the fact that an offshore company is controlled by a single investor that creates opportunities for profit in the form of tax minimization.

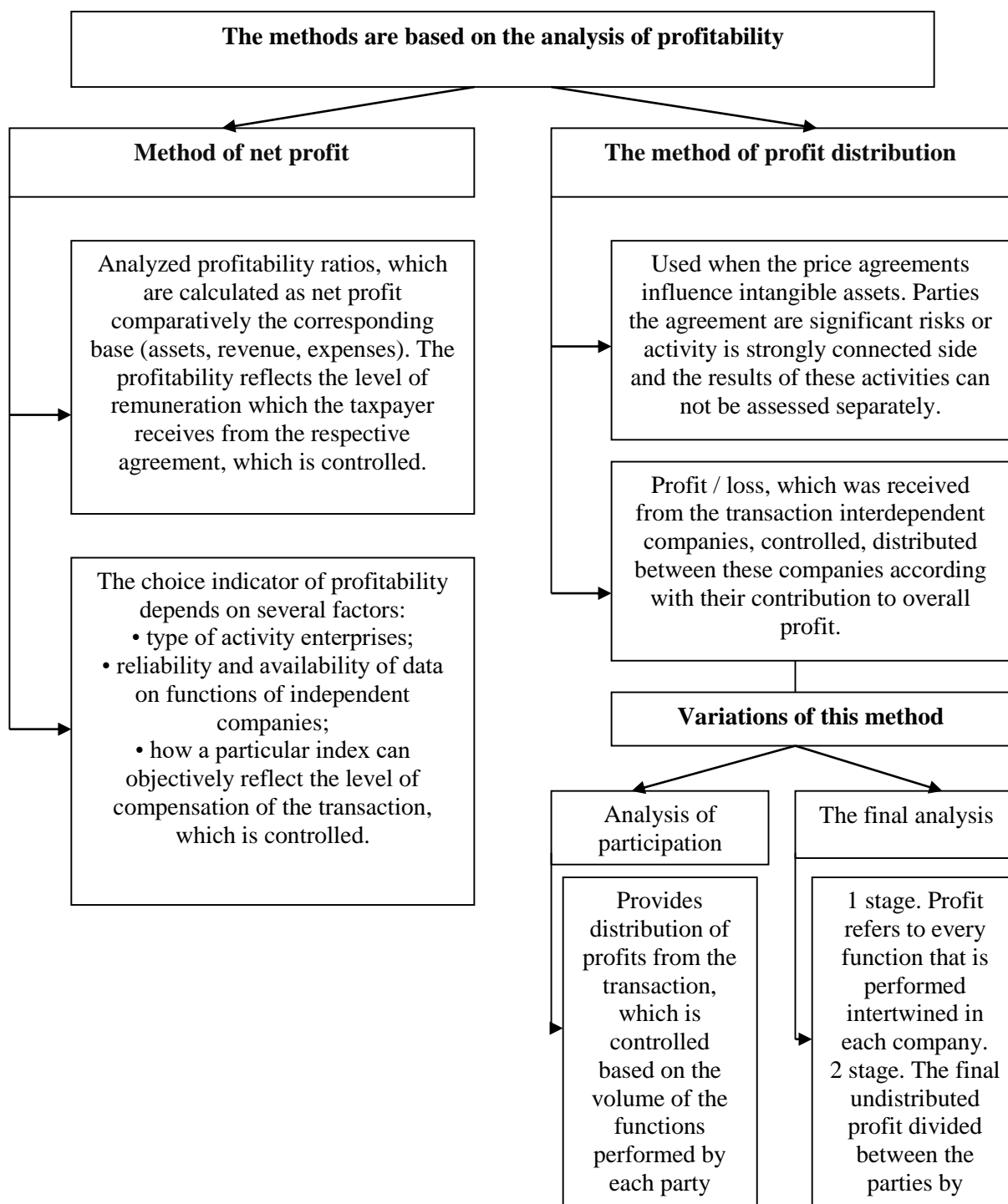


Fig. 2. Methods based on profitability analysis [12]

Considering the economic mechanism of transfer pricing, it is necessary to generalize the methodology of transfer pricing taking into account the methods of its legislative regulation. In the field of transfer pricing, legislative regulation is a decisive factor that affects the pricing process. Analysis of existing approaches to the methodology of transfer pricing led to the conclusion that in world economic practice, the emphasis is on the use of the following two groups of transfer pricing methods: traditional methods of determining the transfer price and methods based on profitability analysis.

Traditional methods of determining transfer pricing, which include: the comparable uncontrolled price method, which is based on prices for identical or similar goods; the resale price method, which is based on the gross profit margin of the resale of goods or services to unrelated parties; the cost method, which is based on the gross profit margin of the cost in comparable transactions between unrelated parties (Fig. 1).

Methods based on profitability analysis, which include: the net profit method is used in the absence or insufficiency of information for the application of other methods; the profit distribution method is used in the presence of interdependent controlled transactions or the presence of significant intangible assets among the parties to the controlled transaction (Fig. 2).

The transfer pricing mechanism is the basis of modern approaches to pricing in the global economy. It is perceived as the only pricing methodology used by multinational corporations in global markets.

At the same time, transfer pricing violates the market mechanism of pricing, distorting the level of world prices. Therefore, transfer prices cannot serve as reference prices for foreign trade transactions. The real price of the product in the case of transfer pricing is not correct, which complicates the control of costs and their comparison on global markets. As a result of the study of the transfer price mechanism, the concept of marketing pricing was improved by expanding the objectives of pricing policy and methods of pricing.

In the context of globalization, the following two are added to the traditional objectives of pricing: maximizing added value and focusing on increasing the internal competitive advantages of the enterprise through cost leadership. In the context of globalization, pricing methods can be classified as follows (Fig. 3).

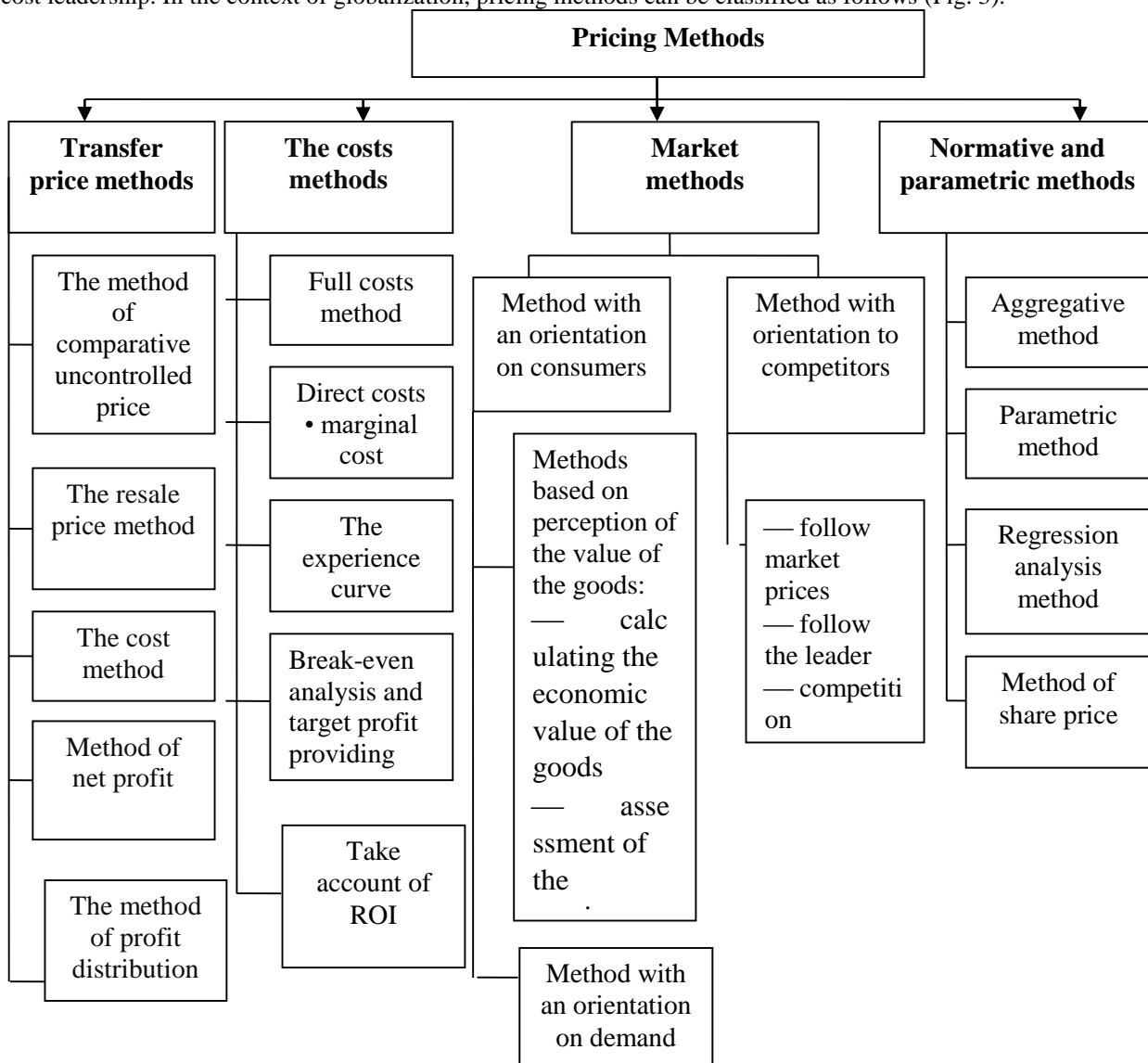


Fig. 3. The place of transfer pricing methods in the traditional classification of marketing pricing methods [12]

CONCLUSIONS

Transfer pricing allows capital to be diverted from the country, as well as to hide the profits of companies from taxation. When selling goods to foreign subsidiaries or foreign dependent partners, a company can set a minimum or low selling price and accordingly reduce customs payments when crossing the border, or set a maximum or high

price to minimize taxes, circumvent restrictions on the return of dividends or extract the largest amount of money from a foreign dependent partner. In general, a company is interested in using low transfer prices in countries where taxes are lower than in the domestic market, and vice versa. This causes serious damage to the national interests of the respective countries and causes sharp criticism from government, and primarily tax and customs authorities.

Summing up this study, it should be noted that the most significant influence on the transformation of the concept of pricing in the context of globalization is exerted by the following factors: international competition and transfer pricing. The transfer pricing mechanism is the basis of the latest approaches to setting prices in the context of the global economy. It is perceived as the only pricing methodology used by transnational corporations in global markets. At the same time, transfer pricing violates the market pricing mechanism, distorting the level of world prices. Therefore, transfer prices cannot serve as reference prices for foreign trade transactions. The real price of a product in the case of transfer pricing is not correct, which complicates cost control and their comparison in global markets. However, considering the methodological approaches to transfer pricing, it should be classified as a group of marketing pricing methods, since they use the principles of the marketing approach to pricing.

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