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Transfer Pricing Policies And Corporate Performance Of Multinational Enterprises In Nigeria

Dr. Kalu Igwe & Dr. Kehinde Oluwasola Bernard

Department of Accounting,
Faculty of Management Sciences,
University of Port Harcourt, Nigeria

ABSTRACT
The concept of financial performance which results in the proper combination of sustainable business environment, optimal utilization of entity's human and capital resources and competent management team could be hindered due to government regulations and over all economic environment. Nigeria has not been an exception as multinational enterprises in Nigeria are subject to challenges that may hinder financial performance. Previous studies on transfer pricing and financial performance used secondary mechanisms in their analysis. This study deviates and seeks to examine the causal effect of transfer pricing primary mechanism on corporate performance of multinational enterprises in Nigeria. The study employed Augumented Dickey-fuller based on panel data framework for the period 2014 to 2023 on multinational enterprises in Nigeria. The use of ADF was to ascertain the stationarity or non stationarity while Granger causality test was conducted to show the directions of causality. From, Hausman test fixed and random effects was adopted. The Study confirmed that causality is either unidirectional nor bidirectional. The causality test result suggest that the variables are independent and a change in one variable does not Granger cause a change in the other variable. The findings, although showing neither unidirectional nor bidirectional causality indicate that in terms of relationships, transfer pricing had positive significant relationship with profit after tax and negative relationship with return on assets. We conclude that descriptive statistics demonstrated significant variability across firms, especially with regards to profit after tax, indicating that multinational enterprises experienced significant disparity in financial risks and operational efficiency. Based on the findings, we recommend amongst others that since transfer pricing techniques have been shown to greatly increase profit after tax, the selected firms should fortify their transfer pricing policies
Keywords: Transfer pricing policies, Corporate Performance, Profit After Tax, Return on Asset.

INTRODUCTION

The measurement of management performance may be assessed by evaluating the extent to which value management enhance organizational outcomes on a global scale. In order to achieve long-term objectives, maintain the continued sustainability of the organization, and enhance future prospects, it is essential for financial management to include judicious expenditure. The conventional sources of augmentation revolve around matters pertaining to the accurate management of a business's finances in the attainment or surpassing of sales, forecasts, and the efficient utilization of all available resources (Augustine & Abdulrahman, 2022). Three key criteria define a successful company. One of the primary determinants is the productivity of the organization, which is contingent upon the efficient conversion of inputs into finished products. Next, is the productivity of the firm, which may be defined as the disparity between its

revenue and expenses. The third factor is the market premium, which represents the disparity between a firm's book value and market value (Augustine & Abdulrahman, 2022).

Based on empirical evidence, it has been observed that intra-group commerce is experiencing a rapid expansion and is estimated to constitute a significant portion, perhaps exceeding 30% of the whole volume of world trade. The interactions inside a group or business are influenced by a mix of group dynamics and market pressures, in contrast to the free market conditions that exist between autonomous organisations (Adum, 2015). While each branch of a multinational corporation operates autonomously, they are all aligned with the overarching corporate objectives. The objective of achieving a "good profit" is among these aims. Multinational enterprises engage in international commerce by conducting transactions across their several business divisions, including their parent company, foreign subsidiaries located in multiple countries, in order to achieve their objectives. The exchange of goods or services across various divisions of multinational corporations is often referred to as "trade" and it incurs a specific expanse called the "transfer price" (Jude & Atu, 2010).

Transfer pricing is the method use to ascertain the value of products intangible assets, and services in transactions that include related parties or firms operating under shared ownership. The significance of transfer pricing extends beyond its role in safeguarding the interests of minority investors or creditors in corporate subsidiaries. (Adum, 2015) conducted a study on this topic. The primary objective of transfer pricing is to incentivize managers to consistently prioritise the overall interest of company.

However, the purpose of transfer pricing has become increasingly distorted due to the cross-border transactions conducted by multinational corporations involving the transfer of goods or services. These transfers elicit the attention of corporations about tax obligations, liabilities, and currency rate uncertainties, thus enhancing the company's competitive advantage and bolstering its market position (Rina & Ermadiani, 2020). The impact of transfer pricing on income taxes is heightened when the entities involved in the transaction are liable to various tax jurisdictions (Adum; 2015) During the process of consolidating the financial statements of controlled foreign businesses and their domestic parents, it is common practice to exclude intercompany transactions. However, It is important to note that for tax purposes, these entitles are not consolidated, leading to the non-consolidation of the transaction (Adum, 2015). Differential tax rates implemented across various areas and jurisdictions facilitate the process of transfer pricing and contribute to the establishment of some countries as tax havens (Brock & Pogge, 2014; Cristea &Nguyen, 2016).

Transfer pricing is commonly used strategy by corporate organisations to mitigate their tax liabilities. By attributing a significant portion of their profits to Jurisdictions with lower tax rates, organisations are able to effectively reduce their total tax burden (Osho & Ilori, 2020). Transaction transfer pricing plays a crucial role in facilitating firms' decision-making process by effectively mitigating corporate income tax liabilities and facilitating the movement of funds from countries that impose limitations or complete prohibitions on profit repatriation (Tebogo, 2011). The policy of corporate organisations with regard to transaction transfer pricing is influenced by several factors. These factors include the price level in the host country, the political and economic risks associated with the transaction, the currency legislation in place, and the fiscal considerations of the countries involved in the cross-border activities of member companies within the group (Osho & Ilori, 2020).

Financial performance which results in the use of proper combination of sustainable conducive business environment, optimal utilization of entity's human and capital resources and multinational operations by a competent management team could be restricted due to challenges such as lack of infrastructural facilities and government regulations (Niyi, S. et al. 2024; Osho & Efuntade, A. 2019).

The business environment in Nigeria is characterized by vulnerabilities predominant in Nigerian economy. Multinational enterprises are subject to challenges which hinder financial performance such as unnecessary harsh conditions such as exchange rate fluctuation and government regulations on transfer pricing affects the financial performance of multinational enterprises in Nigeria (Theophilu et al. 2022)

The problem is how the management of multinational enterprises should adopt transfer pricing strategies for better financial performance.

Aim and Objectives

The aim and objectives of the study was to determine the effect of transfer pricing policies on corporate performance of multinational enterprises in Nigeria. The specific objectives were to:

i. Determine the effect of transfer pricing policies on return on assets (ROA) of multinational enterprises
ii. Ascertain the effect on transfer pricing policies on profit after tax (PAT) of multinational enterprises

Research Questions

The problem identified in this study raised some questions. They were broken down into research questions as follows:

i. What is the effect of transfer pricing policies on return on assets (ROA) of multinational enterprises?
ii. What is the effect of transfer pricing policies on profit after tax (PAT) of multinational enterprises?

Research Hypotheses

The following hypotheses were tested in this study in order to provide answers to the research questions stated above. They were state in null form

H01 There is no significant effect of transfer pricing policies on return on assets (ROA) of multinational enterprises

H02 There is no significant effect of transfer pricing policies on profit after tax (PAT) of multinational enterprises

LITERATURE REVIEW

THEORETICAL UNDERPINNINGS

Agency Theory

Jensen and Meckling (1976) argued that if managers are utility maximizing individuals, they should be expected to act in their own best interest moreover managers best interest are not always consistent with the owners' best interests. They argued that agency issues are general to virtually all cooperative activity undertaken by self-interested individuals. Solutions to the agency problem require some combination of contracting (Incentives) and monitoring in order to align agents' goals with those of principals. Fama (1980) argued that a properly functioning labour market for managers serves to minimize agency problems. However, labour markets are limited in their policing role when it is difficult to obtain or assess reliable information such is precisely the case with international labour markets.

Thus, agency probems are a particularly important issue in international settings. Stoughton and Talmor (1994), in their study of how MNCs chose transfer pricing in the presence of corporate tax rates, pointed out that an asymmetric information problem exist between a parent and its foreign subsidiaries. Extending the Stoughton and Talmor (1994) reasoning concerning information asymmetry, agency theory can provide a possible insight into transfer decision making in the face of volatile exchange rates.

Positive Accounting Theory

Accounting standards are the result of complex interaction between many parties, both the accounting standards governing body and company management. Many people who have tried to spend their resources to influence the determination of accounting standards and this continues to this day. Previous research has proven that there is a great deal of pressure received by the accounting standards regulatory body. This pressure has led to a reorganization of the standard setting board watts & Zimmerman (1978).

Efficiency Theory

Developed by Chambers (1966), efficiency accounting theory focuses on the role of accounting in facilitating efficient decision-making. The theory assumes that accounting information should be designed

to help decision-making make optimal choices. These theories provide valuable insights into the role of accounting in facilitating decision-making, the relationship between principals and agents, and the factors that drive accounting choices.

Conceptual Framework

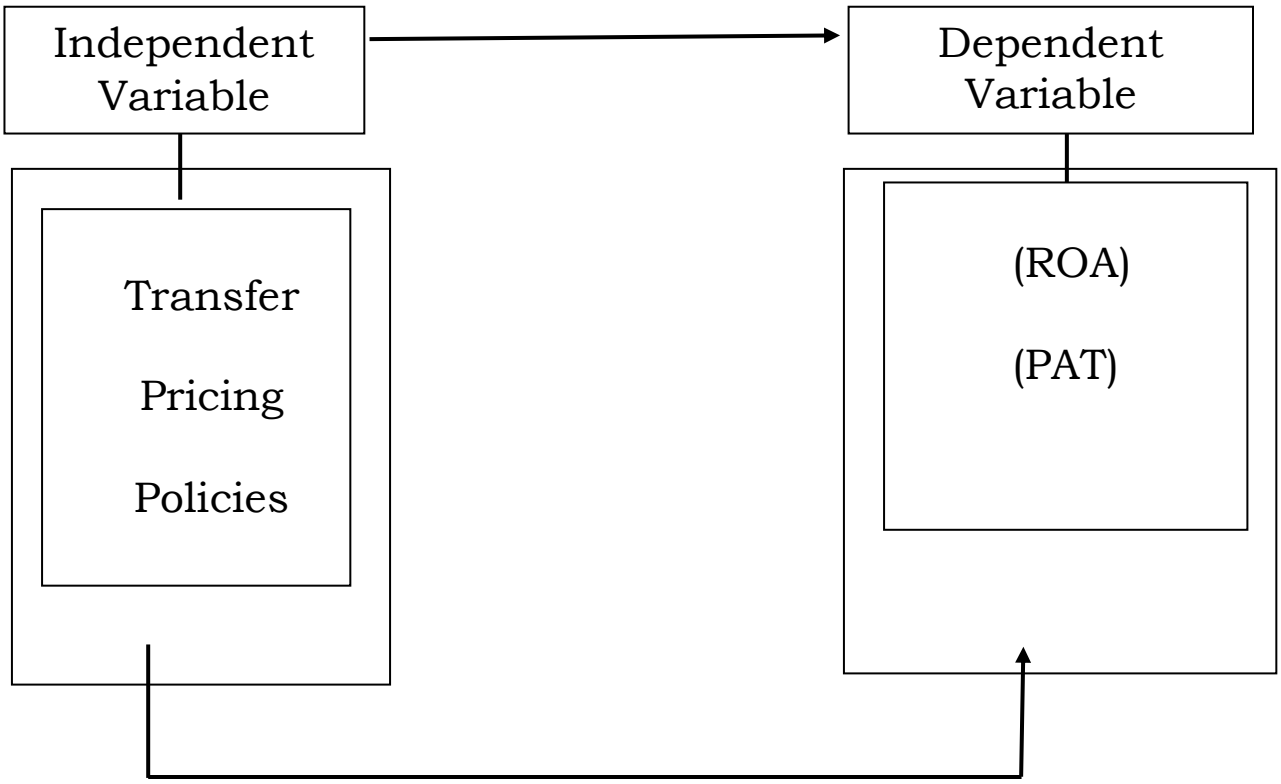

Figure 1: Conceptual Framework
Source: Researcher's Conceptual framework of Transfer pricing policies and the corporate performance of multinational enterprises model in Nigeria.

The figure above shows the effect of transfer pricing policies on corporate performance of multinational enterprises in Nigeria. The independent (predictor) variable is transfer pricing while corporate performance (criterion) variables with return on assets (ROA) and profit after tax (PAT) and as proxies for corporate performance.

Transfer Pricing

The government of countries fix tax to maximize the revenue from tax collected from the local multinational corporations (MNCS), and they fix it low to maximize sales to attract more multinational corporations in bid to reduce their tax burden, adopt an income shifting strategy by moving to jurisdiction or countries with low tax rate avoiding the high-tax rate countries Adeonumu, et al; (2023). Horst (1997) develops a model from the idea of a multi-plant monopolist by selling in two different countries to analyze how the multinational corporations (MNCS) maximizes their after tax earning through transfer prices. In the model, the firm's earned profit will be the summation of the after-tax profit from the firms in two countries, in addition to the term that narrates the impact gained from intra firm trade. This gives the firms the opportunity to choose whether to adopt their highest or lowest possible transfer prices which

may be determined by the differentials in taxes between the importing and exporting countries and rates of their tariffs.

Horst (1971) and Eden (1998) view transfer price manipulation as the setting of transfer prices to be above or below opportunity costs in order to avoid but not to use the opportunity of evading the control of the government and or take opportunity of arbitrage differences between countries. The multinational corporations (MNCs) also adopt the transfer prices manipulations to avoid government price or tax control. To avoid the problems associated with tax like double tax and tax avoidance, the government adopts the arm's length principle. The arm's length principle is an international standard for transfer prices. The arm's length principle can be referred to as the difference that exist between two separate enterprises with the controlled and uncontrolled cases. The arm's length principle can be achieved for controlled transaction when their transactions are in compliance with the comparability analysis and the best method rule. The best-method rule. is the method that the company adopts as the procedure that best suits the tax business policy, on the other hand, the comparability analysis is covered with a situation in which the company of the controlled transactions makes several comparison before finalizing the transactions that may achieve the goals of the arm's length principle.

Challoumis (2019) views transfer prices as the price that is set for internal or intra-firm transactions of goods, capital flows, services and intangibles among the multinational corporations (MNCs). The impact that the transfer prices manipulation has on the revenue generation has prompted different controls of transfer prices and has prompted several empirical investigations. Multinational corporations (MNCs) have inherent advantages over local result of their creative capabilities. Based on the figures provided by Eukeria, et al; (2012), it has been determined that multinational corporations (MNCs) experience an annual loss of about 160 billion US Dollars in sales due to the implementation of exploitative transfer prices practices. Therefore, it is essential to emphasize the significant of understanding the transfer prices strategies of multinational corporations (MNCs) due to their implications for taxes and the ability of government to provide public goods and services.

These factors directly affect social welfare (Eukeria, et al (2021). A multinational corporation employs transfer prices in transactions with its related parties, such as subsidiaries situated in foreign countries, to enable its managers to transfer profits from one subsidiary to another. The practice is employed to reduce the tax liability in a country with higher tax rates (Nikolasos 2009). The used of this strategy may pose several concerns for the host country due to the subsidiary's reduced profitability and increased tax planning flexibility. (Niyi, et al; (2019) There are several motivations to do transfer prices, one of them is the motivation of tax avoidance. Tax is a mandatory contribution to a country that is owed by individual or an entity based on the law, by not getting compensation directly and used for state purposes for the greatest prosperity of the people. The greater tax burden causes companies to transfer prices in the hope of maximizing the burden. The decision to transfer pricing will result to lower global tax payments in general. Another factor that allows companies to make decisions about transfer pricing is tunneling. Tunneling is the transfer of resources from within the company to the controlling shareholders. The transfer of resources can be done in various ways, one of the them is through transfer pricing. (Niyi et al; 2019)

According to Garrison, et al; (2012) transfer pricing or prices are prices charged when a company segment provides goods or services for other segments of the same company. There are three common approaches used to determine transfer prices, namely by letting managers engage in transfer to negotiate transfer prices, determine transfer prices at the base price used either variable or full cost (full absorption cost), or determine transfer prices at market price Schuster (2015) defines transfer prices as internal prices of products made in companies that have two main functions, namely the allocation of profits (in order to assess division profits and measure performance) and co-ordination to reach divisions that favour the interests of the company as a whole) Yunaish, et al., (2012) also explains that transfer pricing is the price contained in each product or service from one division that is transferred to another division in the same company or between companies that have a special relationship.

Additionally, managers of international corporations may influence transfer prices and skew earnings in the following ways (Shapiro, 2005):

Tax Arbitrage: The phenomenon being discussed involves the movement of income from entities located in regions with high tax rates to entities situated in regions with lower tax rates. Additionally, it encompasses the shifting of profits from entities that incur tax losses, all while adjusting the tax rate in order to reduce the total tax liability.

Financial Market Arbitrage: Moving money between units to get around exchange regulations, increase returns on extra cash, or lower borrowing costs.

Credit Control Purposes: Involving easing credit restrictions on a specific subsidiary to get outside funding increase short-term earnings, and establish a dominant position in the market.

Regulatory System Arbitrage: Determining genuine profitability by distributing earnings among units in compliance with the government .

Transfer Pricing in Nigeria

The board of the federal inland revenue service (FIRS) is in charge of transfer pricing regulation and monitoring in Nigeria. This income tax (transfer pricing). Rules were made available for public consumption by the Federal Inland Revenue Service (FIRS) in the year 2018. Both particular amendments to the transfer pricing guidelines of the organization for Economic co-operation and Development (OECD) (ATAFSA) and recommended method for drafting transfer pricing regulations by the an Tax Administration Forum ATAF) were included into the regulations. The recommended method was developed by ATAF, KPMG (2018) States that the revised regulations were operational on March 12, 2018, and it is anticipated that they would apply to basis periods beginning after such date. This is because the date on which the revised rules became operational was March 12, 2018 (Niyi, et al; 2024). The revised regulations which nullify and substitute the income tax (transfer pricing) regulations of 2012) , incorporate several significant updates pertaining to transfer PRICING (TP) that were introduced in the 2017 edition of the organization for economic cooperation and development (OECD) transfer pricing guidelines for multinational enterprises and tax Administrations (OECD, TPG) and the United Nations practical manual on transfer pricing for developing countries (UN, TP) Manual (Ernest & young, 2018).

Corporate Financial Performance

Amiolu and Akinola (2019) and Suleiman, et al; (2020) assert that financial success is a guage of a company's capacity to produce vnew resources via ongoing activities. It may be compared to companies in the same industry or to other sectors of the same industry, and it is used to assess a company's overall financial health. According to Ali (2016) and Ogbeifun and Akinola (2019), a company's specific activities are evaluated on their financial performance Financial information that the firm reports can be used to assess the economic success of the company. The company's value is described as the core of the business in today's environment since only when it is strong enough can growth be accelerated.

Furthermore, according to Didin et al; (2018) and Farhan et al. (2019), economic results refers to the company's overall financial health over a specified time period, which includes how money is used and collected as determined by a number of metrics including liquidity, capital adequacy ratio solvency, leverage, and profitability. The business's capacity to effectively govern, manage and use its resources is important. Furthermore, according to Eton, et al, (2021), financial performance is determined by profitability, capacity and ability to generate enough growth in sales, utilization of capital and financial resources, end-of- years financial reports and statements, and it aids in establishing how the firm's operation is conducted. The amount of earnings a company makes, together with a variety of measures including return on equity (ROE) and return on assets (ROA), define a company's financial success. ROA is a metric for evaluating how well a company uses its resources to provide income and profit. It provides a broad overview of how the company operates. The ROA measures the profit after tax to total assets ratio (Kajola et al; 2017).

Corporate financial performance was analyzed by European, central Bank (2010) to be the capacity of a company to generate sustainable profitability within a specific period. Profitability is a banks first line of

financial protection against losses, as it improves its future earnings through the investment of retained profits Alabede (2012) argued that there are basic internal and external The internal factors among others are liquidity, capital adequacy, high operating expenses etc. while the external determinants include macro-economic variables like financial structure, exchange rate economic development, etc; thus, these factors have resultant effect on corporate performance and investors will want to invest in a company with high level of profitability.

The term "performance": refers to the degree of accomplished that a corporation attains in relation to its predetermined goods and objectives. The issue of selecting performance measurement has been a recurring challenge in the aforementioned research on company financial performance (Asen, et al; 2021), which statistical measure most effectively depicts the performance of business within the domain of finance" is a subject of intense scholarly discourse due to its multifaceted nature and the many interpretations it encompasses. Theoretical foundations for examining corporate success include organizational theory and strategic management (Murphy, et al 1999). The consequences of a performance are contingent upon the audience and the objectives of the performance investors need confidence over the ability of the firm to fulfil its core requirements while also achieving growth (Brown & Medoff, 2003). An effective method for evaluating the financial performance of a company involves the analysis of its financial statements. financial statements may provide management with valuable insights on the company's available resources, various financial options, and overall performance. The financial statement serves as a tool for assessing the effectiveness of management. The statistic often referred to as return on assets (ROA) is frequently used by many scholars to evaluate the performance of a corporation. Notable scholars and researchers such as (Chen et al; 2004) have used this metric in their studies.

Return on Assets (ROA)

Rosikah et al; (2018) viewed return on assets (ROA) as a ratio, known as return on total assets that measures the net income by total assets during the period by comparing net income to average total assets during the period. Moreover, return on assets (ROA) measures the efficiency with which a company can use it assets for profit generation. They explain further that return on assets (ROA) is a measure of organisation's ability to create future profits, using company's total assets. The higher the return on assets (ROA) of an organization, the better the organisation's performance. According to (Rosikah, etal;(2018) return on assets (ROA) is computed by the comparison of available net profit to total assets for common shareholders.

Bodie, etal, (2009) mentioned that return on assets relate to the income earned by the company to the assets used in the business operation. It is commonly defined as net income or (pre-tax profit/total assets. It provides information about management's performance in using the assets of the business to generate income. Profit before tax is generally ideal, because calculation using net income after tax figures may show trends due simply to changes in the rate of taxation. Return on assets (ROA) is a ratio that shows how much an asset play in creating a net profit (Hery, 2015) The greater the return on assets ratio shows the company's management's efficiency and effectiveness, the better return on assets is one of the profitability ratios of money that can describe a company's condition. Kasmir (2016) says return on assets the return is a ratio that state the number of assets utilized in the company. Return on assets (ROA) serves to know the level of effectiveness of the company's overall operations. The larger the ratio, the better because the company can use its assets effectively in bringing profit.

Analysts use return on assets (ROA) to assess a firm's operating performance relative to investments made without considering whether the firm used debt or equity capital to finance the investments (Masa`deh et al; 2015). It reflects how efficient the management of company in generating net income from all the resources of the institution (Khrawish, (2011). Return on assets (ROA) is closely related to other measures used to guage company success, like return on asset (ROA) and return on equity (ROE) (Brikon & Curry, 2021). A higher percentage of the return on assets reveals a better and efficient utilization of assets while a lower percentage show non-efficient utilization or under utilization of assets.

Return on assets has been the mostly discussed topic of scientific debates since the emergence of the modern business relations, as it reflects the true scene of the success in doing business. A great deal of literature studies the theoretical and practical aspect of return on assets through multinational audit companies' regularly publish monitoring reports on the recent trends in the application and limitation of return on assets theory. Results of recent studies showed that there is a growing level of skepticism among researchers over the appropriateness of return on assets as a tool for assessing the financial stability of a company (Anvar, 2018). Hagel found that return on assets (ROA) is not the best-fit measure for assessing the financial stability of the company in long-term, but it is effective in monitoring the company's performance in short term. They proved that return on assets (ROA) is vulnerable to changes in condition of a company, especially changes in revenues from sales, income and assets (Lassafa, et al, 2017).

Profit After Tax (PAT)

Profit after tax**,** also known as net income or net profit, is a key financial metric that companies use to measure performance and profitability. Profit after tax (PAT) refers to the total earnings remaining after deducting all expenses, taxes and other mandatory payments from revenue generated over a period of time, usually a quarter or financial year calculating Profit after tax (PAT) involve determining a company's earnings before interest and taxes (EBIT) first, which reflects profits from core business operations. From the earnings before interest and taxes (EBIT) figure, total expense is then deducted, which includes income tax, corporate tax and other taxes paid. The remaining amount is the profit after tax or net profit (Arjun, 2024).

Profit after tax (PAT) provides an indication of how much money a company is left with after meeting all its financial obligations. A higher profit after tax (PAT) shows the company is more profitable and better equipped to reward shareholders through dividend or future growth. Profit after tax (PAT) also called net income or net profit, refers to a company's total earnings after accounting for all expenses, interest taxes and dividend paid

Profit after tax (PAT) is key financial ratio indicator used to evaluate a company's financial performance and profitability over a specified period of time, usually a quarter or fiscal year profit after tax is calculated by taking a company's earnings before interest and tax (EBIT) and subtracting the tax expense. Earning before interest and taxes is the profit earned from a company's normal core operations, calculating an income from other sources like investment. From the earning before interest and taxes (EBIT), tax expense is deducted to arrive at profit after tax (PAT). Tax expense includes all types of taxes that a company pays including income tax, corporate tax, dividend.

A higher Profit after tax (PAT) indicates greater profitability and financial health of the company (Arjun 2024). In calculating profit after tax, the first step to take is to identify the company's total revenues earned from all business activities during the period. This includes sales revenue from the company's product and services interest income, dividend income, and any other income generated from regular business operations, non-recurring income, like profit from asset sales, is included (Arjun, 2024).

EMPIRICAL REVIEW

The research conducted by Olufemi and Patrick (2021) seeks to examine the influence of the association between transfer pricing and accrual earnings management of the capacity of multinational companies (MNCS) to engage in corporate tax evasion within the Nigerian context. One of the specific objectives of this research objectives of this research is to assess the impact of discretionary accruals and the transfer price index of multinational firms on the sensitivity of book-tax disparities and effective tax rates. The study employed an expost-facto research approach. The sample consisted of a total of 50 multinational companies (MNCs), selected using purposive sampling methodology. The data was analyzed using Panel Estimated Generalized Least Square (EGLS) technique using the specification models with period random effects. The results of the study suggest the relationship between discretionary accruals and transfer price index has a negative influence on both book-tax disparities and effective tax rates. The

research reaches the conclusion that both accrual earnings management and transfer pricing have significant importance. The study recommended that government undertake a through examination of its tax policies in order to attract a greater influx of foreign direct investment (FDI). Furthermore, it is advised that the governing bodies of multinational Corporations (MNCS) exercise prudence in regards to engaging in transfer price manipulation, as it could potentially signify managerial opportunism aimed at serving their own interest. In the process of formulating local legislation, it is essential for local tax authorities to thoroughly, contemplate the distinctive attributes of the host country. The primary objective of Osho and Illori (2020) was to examine the influence of transaction transfer pricing on corporate taxation in Nigeria. The research design used in this study was descriptive. The study utilised secondary data sourced from the KPMG international (tax) Bulletin report focusing on a sample of fifty (50) prominent corporate entities operating in Nigeria. The data spanned the period from 2014 to 2018, enabling an examination of the influence of transaction transfer pricing policies on various aspects of business performance, including growth, tax rats, profit rates and tax liabilities within these organisations. The outcomes of the research revealed that transaction transfer pricing rules have a beneficial effect on corporate entities in Nigeria as they experience growth in their operations. The study recommended that corporate organisation use appropriate safe-guards and mitigate costly errors while implementing transfer pricing requirements.

Eukeria, Etel, (2021) provide a comprehensive examination of the intricase dynamics characterising the interaction between multinational corporations (MNCS) and tax consultants in promoting tax payers, participation in abusive transfer pricing (TP) practices has significant policy implications, especially in cases where tax administration institutions are lacking in effectiveness. The study used deductive theorizing to investigate tax evasion by multinational corporations, using game theory it begins by analysing the overarching and universal components of multinational corporations (MNCS).

The study investigated the impact of transfer pricing decision-making processes in multinational corporations and critically evaluates the underlying assumptions of game theory. The finding indicates that the gladestine collaboration between tax consultants, and multinational corporations serve to legitimise the exploitative transfer pricing practices by decreasing the probably of detecting by tax authorities due to information asymmetry. Ms Jillian (2011) looked on the factors that influence the transfer pricing techniques used by multinational corporations in Rwanda. To do this, a quantitative approach was used to statistically significant subset (n=32) of the study population (officially recognised (MNCS) active in Rwanda). Univeriate analysis include the use of frequency tables, means, and standard deviations, multivariate analysis relied on multiple regression models. According to the research conducted, the internal economic factors of the firm and the informal cross-border commerce have a significant role in the selection of transfer pricing techniques made by multinational companies in Rwanda. According to the study's findings, the Rwanda government should enact transfer pricing laws to help multinational corporations (MNCS) with their transfer pricing plans and to better educate the tax authorities on the core ideas behind in Rwanda.

Ogunoye etal (2023) examined the effect of transfer pricing and economic growth in Nigeria. The Auto-Regressive Distributed lag (ARDL) approach was applied to date from Nigeria between 1986 and 2019. The findings revealed an in significant relationship between economic growth and explanatory variables such as transfer pricing manipulation, unemployment rate, government revenue and trade openness. The result also shows a significant negative relationship between exchange rate and monitoring check their day-to-day transactions activities. This may help the government to generate revenue. Ogosi etal (2023) examine some transfer pricing variables and their strategic effects on the economic development in Nigeria. Secondary date sourced from the United Nations and World Bank data bases were utilised in the study using expository research design. Transfer pricing was proxied by trade misvoicing and trade openness, economic development was represented by the human development index while regression analysis was employed in the study. The results showed that transfer pricing strategies has significant effect on economic development if the illegal practices of tax avoidance can be nipped in the bud by the

government, but they cannot remove structural constraints and weaknesses of the economy. It was recommended that the Nigerian government should develop a policy of meaningful trade liberalization, encourage an automated flagging system that tests for deviations in the pricing of related and unrelated transactions by businesses and take punitive action against defaulting multinational companies (MNCS) and firms.

Niyi, etal, (2024) examined the effects of transfer pricing on the financial performance of Nigerian listed multinational companies (MNCS) in Nigeria. The research design used panel regression analysis to investigate the influence of transfer price on the overall performance of multinational companies (MNCS), with focus on the mediating effect of audit quality, the exchange rate has a positive influence on the financial performance of multinational firms, as measured by return on assets (ROA). Furthermore, the analysis of the impact of audit quality on effective tax rates demonstrate a statistically significant negative relationship with the financial success of multinational corporations, as assessment by return on assets (ROA). The study concluded that the performance of multinational corporations in Nigeria is highly influenced by transfer pricing, especially when considering factors such, as exchange rate and effective tax rate, which are regulated by audit quality. The study recommended that multinational corporations in Nigeria undertake appropriate measures to enhance their effective tax rate in order to enhance performance and mitigate expensive errors via the implementation of high quality audits in the context of transaction transfer pricing rule.

The study conducted by Oamungkas and Nurcahyo (2018) examined the influence of multinational corporations, transfer pricing and company performance (especially, liquidity, profitability, and leverage on the practices of tax avoidance among firms listed on the Indonesia stock exchange in the year 2017. The research investigated the significance of these factors in relation to corporate governance and the overall performance of the companies. The use of transactions conducted between interconnected firms and their potential association with tax evasion serves as a means of approximate the effectiveness of transfer pricing control and controlled foreign corporation (CFC) rules. The study focuses on the firms listed on the Indonesia stock exchange inn 2017, except for those in the financial and banking industries. During the duration of the inquiry, a total of 536 enterprises were recorded on the Indonesia Stock Exchange (IDX). This study distinguishes itself from previous research by conducting a more comprehensive analysis of transfer pricing regulations and their susceptibility to tax fraud, with a specific focus on multinational firms. The study considered characteristics associated with multinational corporations since 49% of the enterprises identified were international. The study employed the route analysis technique using SPSC AMOS 22..0. Transfer pricing are influenced by internal factors inside a company. Whereas corporate governance variables and business performance are influenced by external factors.

Admissible arms-length price explained in the evidence intra-company transaction combination with the tax valuations assist to reduce economically Relevant (2018) investigated transfer pricing and the existence of increased tension between multinational firms and tax authorities in the host countries by adopting the ECM on panel data for the period 1980 to 2013. The study found evidence of increasing tension between tax have or tax incentive countries and organisation for economic corporation and development (OECD) countries. Ahmed (2010) investigated transfer pricing from the period between 1981 and 2018 and concluded that home taxation of foreign profit could reduce mispricing incentives but the effect depends especially on the degree of compulsory repatriation. Tim et al; (1999) used survey data to Ethiopia and analysed the effect of integrating managerial and tax objective to transfer pricing and concluded that an internal transfer pricing set is equal to the arm`s length theory price, which will result in low intra company transfer.

Chien and Hsu (2010) studied the relationship between corporate governance and related party transactions. The empirical results provided evidence that corporate government mechanisms conflicts of interest to ‘efficient’ transaction ‘thus’, it was concluded that independent boards and supervisors can play moderating roles in related party transaction. The impact of internal auditing on commercial bank.

Financial performance in Nigeria is investigated by Ezejiofor and Okolocha (2020). Survey research was used in this study. The study's participants are managers internal control officials, fund transfer officials, and cash officers from (7) branches from (5) selected commercial banks in Enugu city, Enugu state Nigeria. The researchers' scores and standard deviation to access the data they used frequency counts, means scores and standard deviation to access the data they collected for the study. At a 5% level of significance, the two hypothesis were tested using the simple regression statistical tool in SPSS version 20.0 internal audit control and procedure have a beneficial performance in Nigeria. According to the data, this impact is statistically significant at the 5% significance.

METHODOLOGY

The data for the study will derived from financial report of multinational enterprises in Nigeria for the year 2014 – 2023. Census sampling method is adopted on a population of 11 multinational enterprises in Nigeria for the period of the study using a purposive sampling method which selected only multinational enterprises with complete data for the period of study. Descriptive statistics, Augumented Dickey-Fuller, correlational analysis approach was used on panel data. Granger causality test was conducted to determine the direction of causality.

Description and measurement of variables

Measures of variables

Variables	Symbol	Measurement	Previous studies	Apriori Expectations
DEPENDENT VARIABLE				
Return on Assets	ROA	Profit after Tax x1000 / Total assets	Pozzoli & Venuti, 2014	Positive relationship Between TP & ROA
Profit after Tax	PAT	Net profit less total expenses	Augustine & Abdulraham 2023	Positive relationship between TP & ROA
INDEPENDENT VARIABLE				
Transfer pricing	TP	Total sales with related parties / Beginning balances of transaction total assets	Uzoigwe & Ekwueme	An increase in transfer pricing is expected to increase cash flow

Source: Researcher`s compilation (2025)

Model specification

Functional model specification

Functional model specification can be specified as follows:

Equation 1: ROA = f (TP)

Equation 2: PAT = f (TP)

Where ROA = return on Assets

PAT = Profit after Tax

TP = Transfer pricing

The functional model can be stated in econometric form for the purpose of this study as follows

Model: ROA

$ROA = \beta O + \beta 1TP+e$

Model 2: PAT

$PAT = \beta O + \beta 1TP+e$

Where:

ROA = Return on Assets

PAT = Profit after Tax
TP = Transfer pricing
βo = Constant Term
β1 = Coefficient of transfer pricing
e = Error term

RESULT AND DISCUSSION

Univariate Analysis

Descriptive Statistics

Table 1 below is the Presentation the summary of the descriptive statistic of the panel data variables.

Table 1: Descriptive Statistics

	ROA	PAT	TP
Mean	10.33536	3230923.	0.368364
Median	7.140000	877456.0	0.120000
Maximum	53.96000	1.86E+08	19.62000
Minimum	0.550000	-1.14E+08	0.010000
Std. Dev.	10.12658	24841837	1.870984
Skewness	1.858230	2.545956	10.04438
Kurtosis	7.087740	33.16539	103.7893
Jarque-Bera	139.8911	4289.442	48409.35
Probability	0.000000	0.000000	0.000000
Sum	1136.890	3.55E+08	40.52000
Sum Sq. Dev.	11177.68	6.73E+16	381.5633
Observations	110	110	110

Source: Eviews 10

Table 1 displays descriptive statistics which revealed how the variables were distributed and their central tendencies during the study period. A degree of stability and consistency in the performance of the company is shown by the profitability indicator: Return on Assets (ROA), which show moderate mean values and comparatively lower standard deviations. Profit After Tax (PAT) and Transfer Pricing (TP), on the other hand, exhibit substantially greater variability. TP has the highest standard deviation (1.87), suggesting that there is a wide range in how businesses approach transfer pricing.The data are right-tailed with a few very high values pushing the mean upward, indicating that all variables are positively skewed. Particularly skewed are Transfer Pricing (skewness = 10.04), Profit After Tax (2.55), and Exchange Rate (2.54), suggesting the existence of extreme situations in which businesses report abnormally high values in these domains. Even while ROA is skewed as well, the effect is not as noticeable and reflects more uniform performance indicators throughout the sample.All variables are leptokurtic, with heavier tails and sharper peaks than in a normal distribution, as further confirmed by the kurtosis values. This is particularly noticeable in TP (kurtosis = 103.79) and PAT (33.17), which supports the previous finding that a small number of firms have extremely unusual numbers that could have a big impact on the distribution as a whole. None of the variables were normally distributed, as indicated by the statistical significance of the Jarque-Bera test findings for all variables at $p < 0.05$. This non-normality suggests that results should be evaluated cautiously and that statistical studies predicated on a normal distribution may not be acceptable. In certain situations, handling the observed skewness and kurtosis may need different techniques or transformations. In summary, while ROA is relatively stable and reliable for analysis,

variables like PAT and Transfer Pricing demonstrate higher variability, strong skewness, and heavy-tailed distributions.

Graph Analysis

Figure 1 below presents the mean distribution of Return on Assets (ROA) of the selected firms across the observed period.

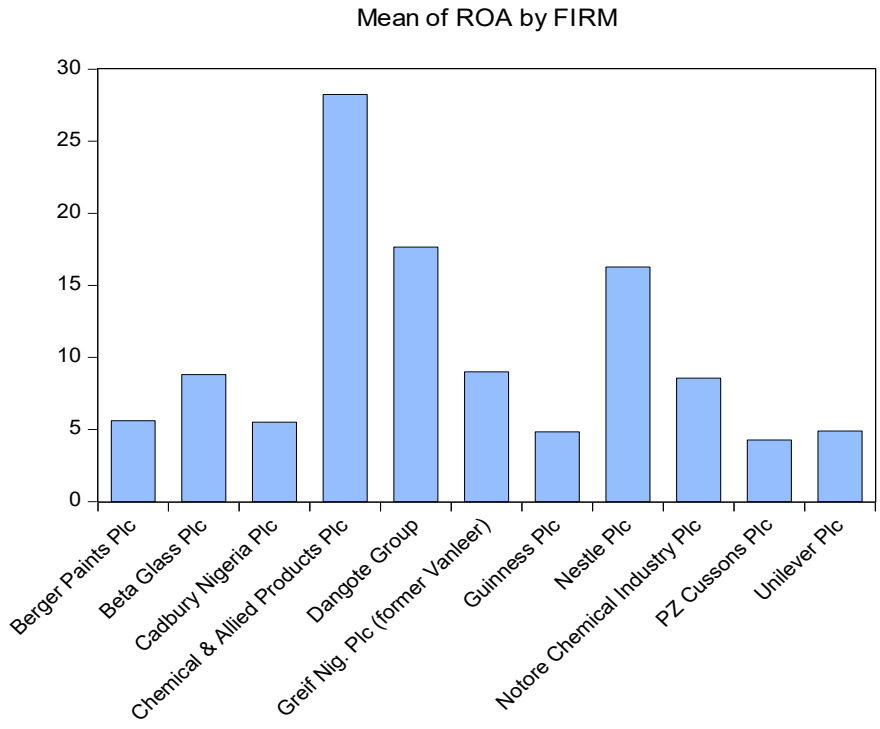

Figure 1: Mean percentage distribution of ROA by companies

The figure above shows that Chemical & Allied Products Plc has the highest ROA. This superior performance implies strong asset management and operational efficiency, making Chemical & Allied Products Plc potentially attractive to investors.The graph showed that Berger plc, Beta Glass plc, Cadbury Plc, Guinness Plc, PZ Cussons Plc and Unilever Plc have similar ROA.the graph shows a significant variation between the top and bottom performers. This variation highlights the importance of internal efficiency and strategic financial planning across the banking sector.

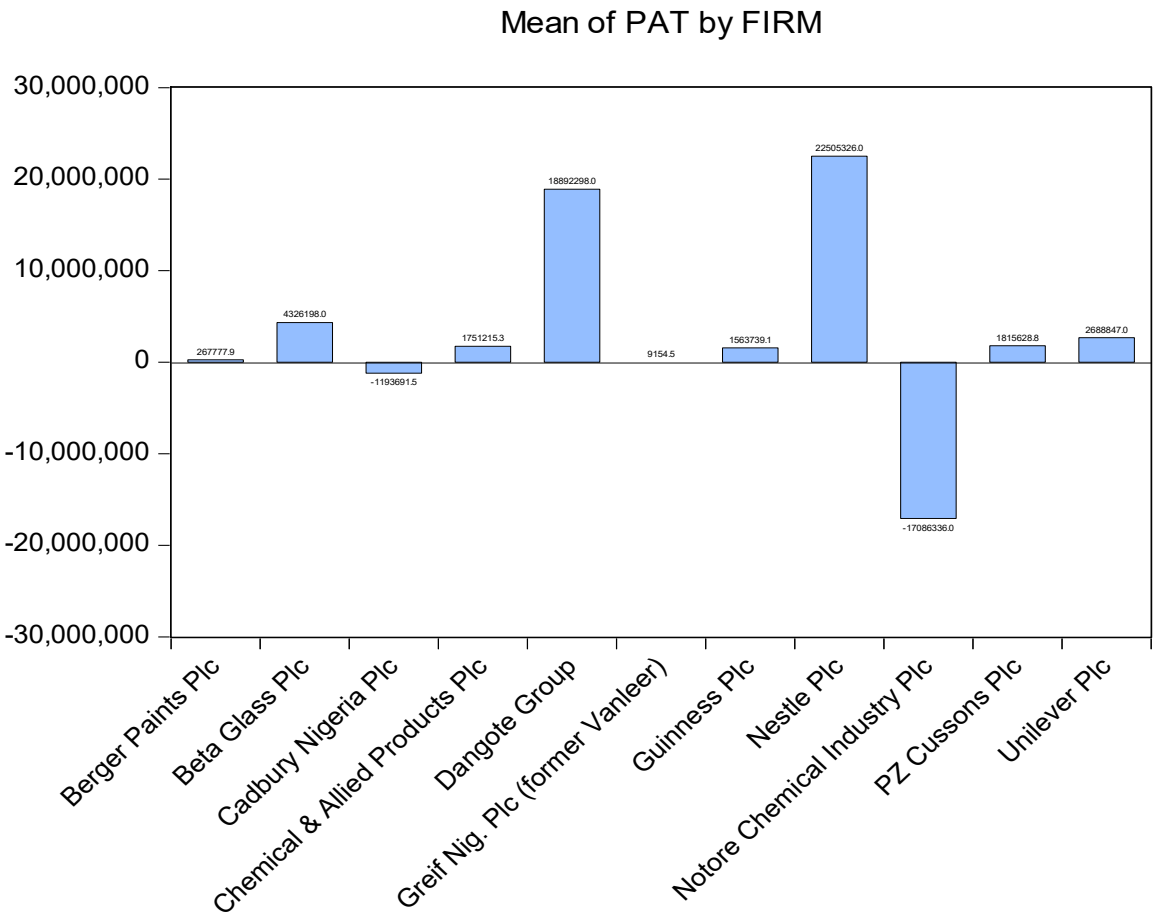

Figure 2: Mean percentage distribution of PAT by companies

From the figure above, Nestle Plc leads the group with the highest mean PAT of approximately ₦22.05 million, indicating robust net profitability and efficient cost management. Dangote Group follows closely with a mean PAT of around ₦18.82 million, also showcasing strong financial performance. Other notable performers include Unilever Plc and PZ Cussons Plc, with PAT values of about ₦2.59 million and ₦1.82 million, respectively.

However, the chart also shows significant losses for some firms. Notore Chemical Industry Plc posts the lowest mean PAT at approximately -₦17.09 million, followed by Cadbury Nigeria Plc at -₦1.19 million, reflecting persistent challenges in generating net income. Beta Glass Plc, Chemical & Allied Products Plc, and Guinness Plc report modest PATs between ₦91,000 and ₦4.32 million, indicating average profitability levels. These negative values highlight potential structural inefficiencies or high operational costs.

Panel Unit Root

PP-Fischer test was employed in testing the presence of a unit root in the heterogenous panel. The results of the panel unit root test to confirm if the variables are stationary or non-stationary is presented below in Table 4.2.

Table 2: Panel Unit Root test – PP-Fisher

variabes	Level I(0)		First Order Difference I(1)	
	Constant	Status	Constant	Status
ROA	30.5100 (0.0342)	stationary	78.9053 (0.0000)	Stationary
PAT	19.1867 (0.6338)	Not stationary	34.2902 (0.0459)	Stationary
TP	78.7938 (0.0000)	stationary	98.1770 (0.0000)	Stationary

Source: Researcher's computation from Eviews 10

The results of the PP-Fisher panel unit root test in Table 4.2 reveal that not all variables were stationary at level. Specifically, Transfer Pricing (TP) and Return on Assets (ROA) were stationary at level, as indicated by their highly significant probability values (p = 0.0000). In contrast, Profit After Tax (PAT) was not stationary at level, with p-values well above 0.05, implying the presence of unit roots. However, when tested at first difference, all variables became stationary, as reflected in the statistically significant p-values at this level. Therefore, the null hypothesis of a unit root was rejected at first difference, confirming that the series are integrated of order one, I(1).

Panel Cointegration

To examine the existence of a long-run relationship among the panel data variables, both the Pedroni and Kao cointegration tests were employed. Utilizing both tests helps to ensure robustness and confirm the presence of cointegration with greater certainty. The results of the Pedroni and Kao panel cointegration tests are presented in Tables 4.3a - 4.3d.

Table 3a: The Pedroni Panel Cointegration Test (model 1, ROA)

Test	Statistic	probability	Weighted Statistics	Probability
Panel v-statistic	-0.3258	0.6277	-2.6227	0.9956
Panel rho-statistic	1.9078	0.9718	2.0047	0.9775
Panel PP-statistic	-2.3304	0.0099	-5.1417	0.0000
Panel ADF-statistic	-2.3148	0.0103	-3.8239	0.0001
Group rho-statistic	3.2841	0.9995		
Group PP-statistic	-6.7510	0.0000		
Group ADF-statistic	-2.7795	0.0027		

Source: Researcher's computation from Eviews 10

The Pedroni panel cointegration test analysis of Table 4.3a investigates the presence of long-run equilibrium between Return on Assets (ROA) and Model 1 explanatory factors. The Panel ADF-statistic (−2.3148; p = 0.0103) and the Panel PP-statistic (−2.3304; p = 0.0099) are both statistically significant at the 5% level among the within-dimension statistics. These findings imply that there is a stable, long-term link between ROA and the explanatory variables, rejecting the null hypothesis that there is no cointegration. Their weighted versions support the findings even more: the Weighted Panel PP-statistic (−5.1417) and the Weighted Panel ADF-statistic (−3.8239) are both highly significant (p = 0.0000) and provide more accurate estimates when cross-sectional dependence is suspected.

With p-values of 0.0000 and 0.0027, respectively, the Group PP-statistic (−6.7510) and Group ADF-statistic (−2.7795) are likewise extremely significant. These findings support the existence of cointegration by being consistent with the panel statistics. Like its panel counterpart, the Group rho-

statistic (3.2841; p = 0.9995) is not statistically significant and does not support cointegration; nonetheless, the other test measures' substantial significance outweighs it. The evidence from statistical tests shows strong support for rejecting the null hypothesis of non-cointegration because the PP tests and the more reliable ADF tests in both panel and group analysis categories produce rejection results. The analysis of Model 1 confirms that ROA maintains a long-term connection with its regression variables. Further investigation of these relationships becomes legitimate because of the validity of implementing long-run panel analysis.

Another cointegration test was carried out to validate the result of the pedroni panel cointegration test as indicated in Table 4.3b.

3b: Kao Cointegration Test (model 1, ROA)

	T-statistic	Probability
ADF	-0.0461	0.4816
Residual variance	47.4419	
HAC Variance	34.0769	

Source: Researcher's computation from Eviews 10

The existence of a long-term equilibrium relationship between the variables listed in Model 1 is evaluated by the Kao cointegration test findings in Table 4.3b. The ADF (Augmented Dickey-Fuller) t-statistic of the residuals obtained from the estimated long-run regression is its main focus. The ADF t-statistic is reported as −0.0461, with a probability value of 0.4816. Since the p-value is above the conventional 5% significance level, we accept the null hypothesis of no cointegration. This suggests that the residuals from the long-run relationship are not stationary, providing statistical evidence of a cointegrating relationship among the variables in Model Overall, the Kao test results indicate that Model 1 does not exhibits a statistically significant long-run relationship among its variables. Upon differencing of the variables in the model, both pedroni test and kao test indicated along run relationship, thus supporting the results of the prredroni tests when the variables were at levels.

Table 3c: The Pedroni Panel Cointegration Test (model 2, PAT)

Test	Statistic	probability	Weighted Statistics	Probability
Panel v-statistic	3.5485	0.0002	-2.9720	0.9985
Panel rho-statistic	1.8726	0.9694	2.7054	0.9966
Panel PP-statistic	1.4335	0.9241	-3.2981	0.0005
Panel ADF-statistic	0.3620	0.6414	-2.2885	0.0111
Group rho-statistic	3.5326	0.9998		
Group PP-statistic	-3.3860	0.0004		
Group ADF-statistic	-0.6089	0.2713		

Source: Researcher's computation from Eviews 10

Table 3c indicates that two (2) of the test statistics indicate presence of a long run relationship while five (5) did not. Another cointegration test was carried out to validate the result of the pedroni panel cointegration test are indicated in table 4.3b.

3d: Kao Cointegration Test (model 2, PAT)

	T-statistic	Probability
ADF	-2.8378	0.0023
Residual variance	3.33 E+14	
HAC Variance	3.13E+14	

Source: Researcher's computation from Eviews 10

The existence of a long-term equilibrium relationship between the variables listed in Model 2 is evaluated by the Kao cointegration test findings in Table 4.3d. The ADF t-statistic is reported as −2.8378, with a probability value of 0.0023. Since the p-value is below the conventional 5% significance level, we reject the null hypothesis of no cointegration. This suggests that the residuals from the long-run relationship are stationary, providing statistical evidence of a cointegrating relationship among the variables in Model 4.

Bivariate Analysis

Correlation Analysis

Table 4a - 4.4b below is a presentation of the correlation matrix of the variables under study

Table 4a: Correlation Analysis (model 1, ROA)

	ROA	TP
ROA	□1.0000	0.0543
TP	0.0543	1.0000

Source: Eviews

The correlation analysis presented in Table 4.4a examined the linear relationships between Return on Assets (ROA) and Transfer Pricing (TP) in Model 1. The findings reveal generally weak correlations among the variables, suggesting minimal linear dependence.

The correlation between ROA and TP is 0.0543, indicating a very weak positive association. Transfer pricing strategies have little to no direct linear impact on a company's return on assets, according to this weak correlation. Any impact that transfer pricing may have on profitability could be minor or mediated by more intricate, indirect processes. The weak correlations between the variables show that multicollinearity is not an issue in the model. Furthermore, the results suggest that nonlinear effects or other explanatory variables might be more important in determining ROA.

Table 4b Correlation Analysis (model 2, PAT)

	PAT	TP
PAT	□1.0000	0.7032
TP	0.7032	1.0000

Source: Eviews

The correlation analysis in Table 4.4b investigates the relationships between Profit After Tax (PAT) and Transfer Pricing (TP) within the framework of Model 4. This analysis reveals a notably strong relationship between PAT and TP, alongside generally weak correlations for the other pairs.

The connection between PAT and TP, which stands at 0.7032, is the most notable finding. This suggests that transfer pricing strategies and profit after taxes have a substantial positive linear connection. Given this strong association, it stands to reason that companies that use transfer pricing more frequently record noticeably larger net profits. This might be because transfer pricing is strategically used to move earnings to advantageous countries, which lowers tax obligations and increases reported profits. .In summary, Model 2 reveals a strong association between transfer pricing and profit after tax, contrasting with the weak or negligible correlations seen with the exchange rate. These findings highlight the potential significance of transfer pricing in influencing firm profitability and suggest that it may be a key variable

in tax planning and financial performance. The absence of multicollinearity further validated the inclusion of all variables in regression analysis.

Panel Granger Causality

Table 5a-4.5b below is a presentation of the Causality Test of the variables under study.

Table 5a: Pair Wise Granger Causality Tests For model 1

Pairwise Granger Causality Tests
Sample: 2014 2023
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
TP does not Granger Cause ROA	88	1.07679	0.3454
ROA does not Granger Cause TP		1.38459	0.2562

Source: Eviews

Table 5 presents the results of the Pairwise Granger Causality Tests for Model 1. The findings reveal that there is no evidence of causality between transfer pricing (TP) and return on assets (ROA), nor from transfer pricing (TP) to exchange rate (ER).

Table 5d: Pair Wise Granger Causality Tests For model 2

Pairwise Granger Causality Tests
Sample: 2014 2023
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
TP does not Granger Cause PAT	88	0.57561	0.5646
PAT does not Granger Cause TP		0.34442	0.7096

Source: Eviews

As demonstrated in Table 4.5b the Pairwise Granger Causality Tests results for Model 2 are presented. The research established that if any causal connection exists it does not affect the relationship between transfer pricing (TP) and profit after tax (PAT). Thus whether exchange rate fluctuations create substantial impacts on transfer pricing practices, it has no effect on profit after tax performance of the selected multinational companies during the period under study (2014–2023).

Multivariate Analysis

The Analysis of the models employed in the study using Fixed and Random Effects approach and Hausman Test are presented in Table 4.6a-4.6b.

Table 6a: Results of fixed Effects Vs Random Effects and Hausman Test for Model 1
Dependent Variable: ROA

Variables	Fixed Effect	Probability	Random Effects	Probability
Constant	10.6939	0.0000	10.7904	0.0000
Transfer Pricing (TP)	0.0316	0.9383	0.0592	0.8839
R^2	0.5035		0.0105	
Adjusted R^2	0.4421		-0.0079	
F -Test	8.1999		0.5692	
F-Test (Prob)	0.0000		0.5676	
Durbin Watson	0.9399		0.8358	
	Hausman Test			
	Chi-sq stat	**Df**	**Prob**	
Cross-section random	3.5713	2	0.1677	

Source: Author's computation from Eviews

Table 5a presents the regression results for Model 1, where Return on Assets (ROA) is the dependent variable. The table compared the estimates from the Fixed Effects (FE) and Random Effects (RE) models, and includes the outcome of the Hausman test, which helps determine the more appropriate model for the panel data structure. The results of the Hausman test report a chi-square statistic of 3.5713 with 2 degrees of freedom and a p-value of 0.1677. Since this p-value is greater than the conventional 5% significance level, the null hypothesis which states that the random effects model is the more efficient and consistent estimator is not rejected. Therefore, the Random Effects model is deemed appropriate for interpreting the relationship between the variables and ROA in this study.

The R-square value of 0.0105 and adjusted R-square value of 0.0079 for random Effect estimation were not statistically significant as shown by their probability value of 0.5676 from the F-Test. The R-square value of 0.0350 and the adjusted R-square value of 0.0209 in the random effects estimation mean that the independent variable in the model: Transfer Pricing (TP) explain only 0.06%, of the variation in Return on Assets (ROA) among the firms in the study. The F-test probability value of 0.5676, which is greater than the conventional 0.05 significance level, implies that the overall model is not statistically significant. This could mean that key explanatory variables may be missing, or that ROA is influenced by other factors not captured in the model (e.g., firm size, market conditions, governance structures, etc.).

Table 6b: Results of fixed Effects Vs Random Effects and Hausman Test for Model 2
Dependent Variable: PAT

Variables	Fixed Effect	Probability	Random Effects	Probability
Constant	615769.1	0.7443	697055.4	0.8249
Transfer Pricing (TP)	9335826	0.0000	9325088	0.0000
R^2	0.6168		0.5301	
Adjusted R^2	0.5694		0.5214	
F -Test	13.0123		60.3747	
F-Test (Prob)	0.0000		0.0000	
Durbin Watson	1.4075		1.2786	
	Hausman Test			
	Chi-sq stat	**Df**	**Prob**	
Cross-section random	0.1119	2	0.9455	

Source: Author's computation from Eviews

Table 6b presents a comparative analysis of the Fixed Effects (FE) and Random Effects (RE) estimations for Model 2, with Profit After Tax (PAT) as the dependent variable. The independent variables included in the model are Transfer Pricing (TP). The Table also reported the result of the Hausman test, which is employed to determine the appropriate model specification.

The constant term fails to demonstrate statistical significance at a 0.05 level across both the Fixed Effects model (coefficient = 615,769.1, p = 0.7443) and Random Effects model (coefficient = 697,055.4, p = 0.8249) as these models have no meaningful relation between PAT variations when considering TP as fixed. The research shows that Transfer Pricing (TP) produces strong and statistically significant positive effects on PAT and that the Fixed Effects model reports coefficients at 9,335,826 (p = 0.0000) and the Random Effects model reports coefficients at 9,325,088 (p = 0.0000). The data shows that higher implementation of transfer pricing strategies leads to corresponding large tax profit growth.

The Fixed Effects model demonstrated a model fit quality through an R-squared of 0.6168 and an adjusted R-squared of 0.5694 which indicated that the model explains 56.9% of PAT variation. The Random Effects model achieved a compatible performance level with its R-squared measure at 0.5301 and adjusted R-squared value at 0.5214. The results from the Fixed Effects model F-test showed an outcome of 13.0123 with its corresponding p-value set at 0.0000 which indicated overall model significance. Results from the Random Effects model showed an F-statistic at 60.3747 which further indicated a p-value of 0.0000 that demonstrated strong significance of the model. The calculation of a constant term at 697,055.4 ₦ indicates how the business would earn approximately ₦697,055.40 in average profits after tax if transfer pricing activities stayed unchanged. This figure demonstrates the core profitability level that stands as a reference when all other elements remain consistent. The residuals of both models have a medium positive autocorrelation according to Durbin-Watson statistics which showed FE: 1.4075 and RE: 1.2786.

The Hausman test provided the basis for selecting the most suitable model. The Random Effects model shows statistical acceptability with Chi-square statistic = 0.1119 and df = 2 and p = 0.9455 because the results fail to reject the null hypothesis for correlation between effects and regressors. The Random Effects model was selected since it meets statistical requirements. Both the Fixed Effects and Random Effects models simultaneously demonstrated that Transfer Pricing affects Profit After Tax significantly. The research findings indicated that the selected firms achieve better profitability results through strategic management of their transfer pricing activities throughout the investigated period.

DISCUSSION OF FINDINGS

Effect of Transfer Pricing Policies on Return on Assets (ROA) of Multinational Enterprises

The results in Table 4.6a indicate a positive association between transfer pricing activities and return on assets because the TP coefficient stands at 0.0592. The relationship between Transfer Pricing (TP) and ROA does not produce statistical significance because the calculated p-value reaches 0.8839. The evidence shows that transfer pricing practices result in minor positive asset return effects but these effects remain weak and unreliable based on this research model. The data does not support the conclusion that transfer pricing activities make substantial changes to ROA-based profitability throughout the analyzed group of companies.This is similar to the findings by Osho & Ogedengbe (2022) and Ocholla (2023), who reported significant positive relationship between transfer pricing and firm profitability in the manufacturing sector. According to Awotomilusi, et al., (2024), transfer pricing theories, tax optimization and adjustments to internal financial structures from TP practices show minimal direct impact on profitability measured through ROA because market and organizational conditions create weak or diluted results. The study demonstrated that the connection between transfer pricing and ROA-based profitability stays weaker than theoretical models typically predict. The present sample data indicates transfer pricing operations fail to adequately modify asset return dynamics thereby affecting zero noticeable changes in profitability measurements.

Effect of Transfer Pricing Policies on Profit After Tax (PAT) of Multinational Enterprises

The results from Table 4.6d demonstrated that Transfer Pricing (TP) has a coefficient value of ₦9,325,088 with a p-value of 0.0000 which signifies high statistical significance at the 5% level. Transfer pricing strategies typically enable business organizations to reduce their tax burden and grow profits as described by the results significant positive coefficient.The analysis indicates that a single-unit rise in

transfer pricing operations directly produces ₦9,325,088 additional Profit After Tax (PAT) for the company. The relationship demonstrates that companies use transfer pricing effectively to generate financial advantages in addition to operational efficiency in boosting their net earnings. The improvement of post-tax profitability is sometimes achieved through transferring income to locations with lower tax rates and establishing internal transaction structures for tax benefits.. Thus, the empirical evidence supports the notion that transfer pricing is not solely a tool for internal cost allocation but also a deliberate financial optimization mechanism used to enhance firm profitability. This result aligns with the findings of Osho & Shaka (2022), who documented that effective transfer pricing management can positively influence corporate earnings.

This strong positive relationship can be theoretically explained through tax minimization theory and profit-shifting theory. A business strategy which involves transfer pricing enables companies to disperse their revenues across different jurisdictions through calculations that reduce their aggregate tax liabilities and boost financial performance (Ciubotariu & Petrescu, 2021; Aina, 2025). This is further supported by profit-shifting theory, which contends that multinational corporations manipulate internal transfer pricing in order to shift profits from high-tax to low-tax jurisdictions, hence increasing consolidated earnings (Sa'Adu & Isau, 2022). Additionally, agency theory provides another lens, proposing that managers act in the interest of shareholders by adopting transfer pricing strategies that maximize net profits and enhance shareholder value.

CONCLUSIONS

This study examined the effects of transfer pricing practices on the corporate performance of multinational manufacturing enterprises in Nigeria, focusing specifically on key financial performance indicators such as Return on Assets (ROA), and Profit After Tax (PAT).

Descriptive statistics demonstrated significant variability across firms, especially with regard to profit after tax and transfer pricing strategies, indicating that multinational enterprises experienced significant disparities in managing financial risks and operational efficiencies. Both Pedroni and Kao tests showed that transfer pricing create long-term balance relationships with measures of corporate performance (ROA) However, the results were less conclusive when examining relationships with PAT. The results revealed that Transfer pricing strategies were not significant predictors of ROA or PAT over the study period, according to multivariate analysis employing Random and Fixed Effects models.

The overall implication of these findings was that aggressive transfer pricing practices aimed at tax minimization continued to have an indirect influence on reported financial outcomes, particularly affecting profit after tax. In conclusion, while Transfer pricing practices are important, they are part of a broader set of factors influencing the financial performance of multinational manufacturing enterprises in Nigeria. Comprehensive strategies addressing operational efficiency, governance, risk management, and regulatory compliance is vital for improving corporate performance in a complex, globalized economy.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations were made

1. Since successful transfer pricing techniques have been shown to greatly increase profit after tax (PAT), the selected firms should fortify their transfer pricing.
2. The senior management team of the selected firms should establish internal transfer pricing protocols that follow international standards and all regulatory frameworks for both financial advantage and regulatory compliance.
3. Firms should provide regular training to their finance and accounting teams on the implications of transfer pricing adjustments and currency movements to ensure informed and responsive financial practices.

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