

# Transfer Pricing, Social Factors and Financial Performance of Universal Companies in Nigeria

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DOI: 10.56201/ijefm.v7.no5.2022.pg81.98

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## Abstract

*Research into transfer pricing and the variables influencing its prevalence and scope in a setting such as Nigeria, a developing country, is fascinating. Understanding these elements is crucial for regulatory agencies in Nigeria or other developing nations to effectively monitor businesses and their transfer pricing operations. This study then examined transfer pricing, social factors and financial performance of universal companies in Nigeria. The study was predicated on agency theory to assess the conflict of interest that arises amidst the investors and executives over the practice of transfer pricing. Eighteen (18) listed universal companies were sampled. Panel regression technique was used to analyse the hypothesis to arrive at interpretable findings. The independent variables were board size, board independence and related party transactions while the dependent variable was return on assets. The control variables were firm size and leverage. Findings showed only RPT were not significantly associated with financial performance. However, the overall model was significant as revealed by the p-value of 0.000215 which is less than 0.05. It can be concluded that transfer pricing and social factors identified in this study have explanatory power to influence the financial performance of universal companies in Nigeria. As a result, it is recommended that regulators should expand their rules to increase the disclosure of transfer pricing practices by universal listed companies, and to expand controls and monitoring over transfer pricing in companies through improving corporate governance mechanisms, including increasing the power of smaller shareholders and independent board members in approving such transactions.*

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**Keywords:** *Transfer Pricing, Social Factors, Related Part Transactions, Board Size, Board Independent, Firm Size, Leverage, Performance*

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## 1.0 Introduction

Transfer pricing was named as the primary problem in the accounting scandals involving American corporations including Enron, Worldcom, Adelfia, and Tyco that stunned the financial markets. Although it was resolved to carry out these transactions in accordance with the law, in reality they served the interests of the major players (managers, major shareholders, or their kin) (Anggraeni & Lutfillah, 2019).

In this research, the researchers examined transfer pricing in Nigeria, a nation in Africa (Aruomoaghe & Kingsley, 2010). Transfer pricing has the potential to provide compensation for unaffiliated parties in these transactions as well as independence of stockholders, managers, and other controllers of businesses (Purwanti & Sugiyarti, 2017). By buying and selling commodities, services, and assets, getting loans with favourable terms, and utilizing corporate assets as a guarantee for personal loans, it is possible to address this crucial issue, which will lead to the transfer of wealth (Sari, 2020). Operations, which are typically carried out directly by key stockholders and boards of directors, have a detrimental effect on the firm's value and also play a crucial role in corruption cases that cause the demise of sizable groupings of corporate entities. The security for minority investors will be decreased if there are more transfer pricing practices in the company, which would diminish the share price (Nekhili & Cherif, 2011).

Transfer pricing are frequently used to acquire corporate resources in industrialized nations, but emerging economies are more likely to see them because of a lack of overseas markets and inadequate governance practices (Talab et al., 2017). Transfer pricing are frequently necessary and advantageous transactions that occur repeatedly all over business operations cycle, but under some circumstances, they give big shareholders or corporate management the opportunity to serve their own interests by collecting fees from minority investors (Noviastika et al., 2016). The value of equities at corporations having transfer pricing often declines. There is evidence that companies with relatives in key managerial roles are less valuable than companies with independent managers. Corporate personnel utilize the corporation's interests to boost personal capital (Osho et al., 2020).

Authorities and others who created the Guidelines, with a focus on information transparency and relationships between connected parties, have not taken a stand on the usefulness or damage of Transfer pricing for corporations and investors. According to the agency theory and the idea of transferring wealth, directors may utilize transfer pricing to transfer money or profits from the corporation to their personal interests, which would be against minority investors' rights (Pozzoli & Venuti, 2014). The majority of researches carried out in different markets have demonstrated that Transfer pricing are a way to infringe on the rights of minority owners. Additionally, studies in the area of market reaction reveal that lower-priced businesses have used Transfer pricing more frequently (Pamungkas & Nurcahyo, 2018).

Therefore, research into transfer pricing and the variables influencing its prevalence and scope in a setting such as Nigeria, a developing country, is fascinating. Understanding these elements is crucial for regulatory agencies in Nigeria or other developing nations to effectively monitor businesses and their transfer pricing operations. Thus, when it is judged necessary, these authorities may act to stop any improper transfer pricing. Therefore, given the potential for widespread transfer pricing in Nigeria, the purpose of this study is to identify companies more likely to engage in illegal transfer pricing so that regulatory authorities can better monitor them

and enact legislation to strengthen internal control systems and limit the potential for illegal transfer pricing.

This study intends to advance our understanding by examining any possible impacts on transfer pricing from financial and governance characteristics that distinguish Nigerian enterprises. These elements include the business's financial performance, ownership concentration, CEO duality, board size, independence, and linkages to the political system, as well as the type of audit firm. Numerous worldwide studies have discovered that these characteristics may have an impact on the implementation of unfavorable transfer pricing that might harm some investors, particularly minority venture capitalists (see, for example, Nekhili & Cherif, 2011; Waworuntu & Hadisaputra, 2016; Talab et al., 2017; Turyatini, 2017; Umobong, 2017; Yulia et al., 2016).

Despite the fact that a developing nation like Nigeria may be more susceptible to the damaging impacts of negative use transfer pricing, the features of Nigerian enterprises may have an impact on how much the aforementioned elements may influence the likelihood of transfer pricing. Given how little research has been done on this subject in Nigeria and other poor nations, the results of this study are expected to considerably advance our understanding of the subject.

## **2.0 Literature Review**

### **2.1 Conceptual Review**

#### **2.1.1 Transfer Pricing**

Transfer pricing may be advantageous to the firm and all of its owners, according to one of two competing economic views, while the other contends that they may be exploited to the advantage of the bigger investors at the expense of the lesser equity investors (El-Helaly, 2018; Fang et al., 2018). Concerning the first claim, transfer pricing can occasionally be used to transfer money from controlling owners to the firm for the sake of the business and all of its owners (). Such Transfer pricing may result in lower operating expenses Arifin, et al.(2020) as well as improved governing stockholder supervision of the company's operations.

The adverse impact of transfer pricing, sometimes known as "tunnelling" (Desmiranti, 2019), has drawn the greatest attention in academic literature and among regulators and corporate stakeholders. The fundamental worry here is that strong owners may use their power over the company to damage minority shareholders by stealing money from it (Dewinta & Setiawan, 2016).

Tunneling operations can be carried out using a variety of techniques. To the detriment of smaller shareholders and, to some extent, other stakeholders of the company, these actions may include making excessive payments to family members of controlling shareholders who hold top executive management positions (Hamid & Arshad, 2016) engaging in business dealings with related party companies under unfair prices or terms, or providing loans to related parties with interest rates markedly lower than market rates (Kusuma & Wijaya, 2017).

Another potential negative effect of transfer pricing is that they can be used in committing fraudulent financial reporting. The existence of transfer pricing increases the possibility of such fraud being committed by the management of companies using Transfer pricing to misstate the values of financial transactions (Barker et al., 2017). Additional fraud may also be committed by management deliberately concealing their questionable Transfer pricing through not disclosing

their nature and amount according to IAS 24 requirements (Hayes et al., 2014). While Lee et al. (2014) discovered that the comparability of financial statements worsens with an increase in the amount and volatility of transfer pricing, Kohlbeck and Mayhew (2017) identified a substantial correlation between transfer pricing and the possibility of serious misstatements in financial statements. Indeed, it is anticipated that such deception will enrich the controlling stockholders at the expense of others who utilize financial statements.

Company performance and profitability as well as firm leverage are two of the most frequently mentioned financial elements that might have an impact on transfer pricing. Declining earnings and a reduced capacity to incur debt are two examples of characteristics that the International Auditing and Assurance Standards Board (IAASB) regard to be fraud potential causes in its International Standard on Auditing (Akinola & Efuntade, 2021; Efuntade et al., 2021). Financial considerations were identified to be the most significant fraud risk factors. Therefore, it is feasible that a corporation may participate in RPTs in order to address issues with declining profitability or cash flows. Global empirical investigations have often shown an adverse correlation between transfer pricing and financial performance (Gallery, et al., 2008; Chen et al., 2009; Srinivasan, 2013; Williams & Taylor, 2013; Bava & Di Trana, 2017). Other international studies have generally found a positive relation between transfer pricing and leverage (Kaur, 2013).

Tunneling and misleading transfer pricing might harm minority shareholders and other stakeholders in the firm, as was already noted. In economically developed nations, better corporate governance and regulatory frameworks can, to some extent, lessen these consequences. Transfer pricing issues, however, are anticipated to be much worse in developing nations since there is less protection for minority rights owing to majority owners being family or the government and because rules are not as strictly enforced (Talab et al., 2017).

### **2.1.2 Social Factors**

Good financial and legal frameworks enable the legal admission, concrete operational and legal withdrawal of businesses while also reflecting the importance of the fundamental corporate culture (McCarthy & Puffer, 2016). The legal system was operationalized by Doidge, et al. (2017) as legal safeguards for minority investors and the state of financial and monetary growth. The authors went on to say that these elements could have an impact on economic implications. Political connection has been linked to poor economic expansion, bad governance, and a lack of openness and financial reporting, particularly in state-owned businesses, by the authors of various studies that have already been published (McCarthy & Puffer, 2016; Saidi, 2017). Among the most main determining elements that affect governance practices are social and cultural influences. Hofstede (2020) argued that corporate governance is linked to financial goals that are not culture free. Available evidence indicates that culture, values, and traditions form the historical background of a company (Archambault & Archambault, 2013).

### **2.1.3 Related Party Transactions**

Transaction efficiency and conflict of interest are two possible effects of RPTs. RPTs have lower transaction costs than standard commercial transactions, and they make it easier for affiliates to share resources, which support the firm's diverse economic demands (Anggraeni & Lutfillah, 2019). If RPTs are the outcome of the executives' unethical conduct, then there is agency conflict between the insiders and minority shareholders (Fang et al., 2018). Transactions with ultimate

parents are linked with low levels of creative accounting while RPTs are positively correlated with discretionary accruals (Kohlbeck et al., 2017). RPTs are used to divert company resources to insiders' personal interests; as a result, the amount and character of disclosed RPTs raise audit risk and audit fee (Kusuma & Wijaya, 2017).

The effect of related party loans on tunnelling and the associated earnings management is more pronounced in firms connected with government. Control right of the majority shareholders and their right over profit are the major determinants of discriminatory RPTs (Noviastika et al., 2016). The controlling shareholders use RPTs as a channel to tunnel out firms' resources from the firms they have low right over the profit to the firms they have high right over the profit (Pamungkas & Nurcahyo, 2018) argue that RPTs are driven by the insider's opportunism and which unfavourably affect the value of the firm.

#### **2.1.4 Board Size**

The number of independent board members and the size of the board of directors are other relevant elements that might have an impact on transfer pricing and financial performance. In terms of board size, establishing the ideal size may depend on how well insider and outsider directors are monitored (Garner, et al., 2017). Studies have examined board size and its impact on financial performance, and have found conflicting evidence about the importance of board size or the effectiveness of bigger or smaller boards. For instance, Nurazi, et al. (2015) observed no connection between tunneling and board size. Nevertheless, a negative correlation between board size and company value and board characteristics and firm financial performance was discovered (Kumar & Singh, 2013; Orozco, et al., 2018). However, Romano and Garrini (2014), Ali (2018), and Rashid (2018) discovered a link between board size and financial performance. Additionally, smaller boards are more likely to use discretionary accruals, according to Hwang and Wang's (2015) research.

#### **2.1.5 Board Independence**

In terms of board autonomy, self-governing directors are anticipated to help secure investors' interests due to their lack of potential conflicts of interest and issues with limited agency. This contrasts with block shareholders, who may abuse their power at the expense of minority shareholders (Garner, et al., 2017). According to Boateng and Huang's (2017) research, the presence of several significant, non-controlling owners in a firm limits the capacity of controlling shareholders to engage in tunneling. In a similar vein, Chen et al. (2014) discovered beneficial impacts of supervisory board in reining in tunneling. Many studies have shown that independent board members have good benefits, even if their efficacy may be restricted if they are appointed by the CEO, interlocked, older in age, or hold multiple board positions. Chen, et al. (2014), Wu and Li (2015), Zhu et al. (2016), Boateng and Huang (2017), and Reguera-Alvarado and Bravo (2017) are a few of the research under question.

#### **2.1.6 Firm Size**

Another element taken into account is the size of the firm. The number of workers, total annual revenue, and number of subsidiaries, profitability, production capacity, capital intensity, and stock valuation are a few examples of the several variables that may be used to characterize a company's size (Akinwunmi & Akinola, 2020; Akinola et al., 2021). Large firms are able to benefit from various tax rates depending on where they conduct commercial activities since they carry out more operations, on a greater scale, frequently globally, and they may have affiliates

everywhere. In fact, MNEs may profit from both their profitable and loss-making subsidiaries by adopting a strategy that places the latter organizations' deficits in high-tax nations and their profitable ones in low-tax ones (Osho & Akinola, 2018).

Worldwide profit shifting is mostly employed by major firms because smaller ones lack the resources and know-how to establish such an international strategy, according to (Akinola et al., 2020). Smaller organizations are less vulnerable to such transfers than bigger firms, according to research by Augusto et al. (2018) that examined the impact of company size on profit shifting amongst its affiliates. According to Merle et al. (2019) observation, larger businesses typically move assets and services on a larger scale than smaller businesses do, and as a result, they profit more from regional tax differences and increased efficiency. Additionally, companies like Apple, Google, and Microsoft distribute their revenues to low-tax nations and boost their deductible expenses by paying royalties to higher-tax nations in order to lower the combined taxable income of the group (Xavier et al., 2015). According to an empirical research by (Anastasia & Onuora, 2019), however, bigger companies may try to avoid doing such optimization due to the attention of tax authorities and public outcry that might harm their operations and company.

### **2.1.7 Leverage**

The primary motive of a firm in using leverage is to increase shareholders' return under favourable economic conditions. Financial leverage will enhance shareholders' return on the condition that fixed charge funds (such as long term loans from financial institutions and other sources) can be obtained at a cost lower than the firm's rate of return on net assets (Gweyi & Karanja, 2014). Where the difference between the earnings generated by assets financed by fixed charge debt funds and costs of these funds are distributed to shareholders, the earnings per share (EPS) or return on equity (ROE) increases. EPS or ROE will fall if the firm obtains fixed charge debt funds at a cost higher than the rate of return on the firm's assets. Therefore, EPS and ROE are important aggregates for analyzing the impact of financial leverage on a firm (Tudose, 2012).

### **2.1.8 Financial Performance**

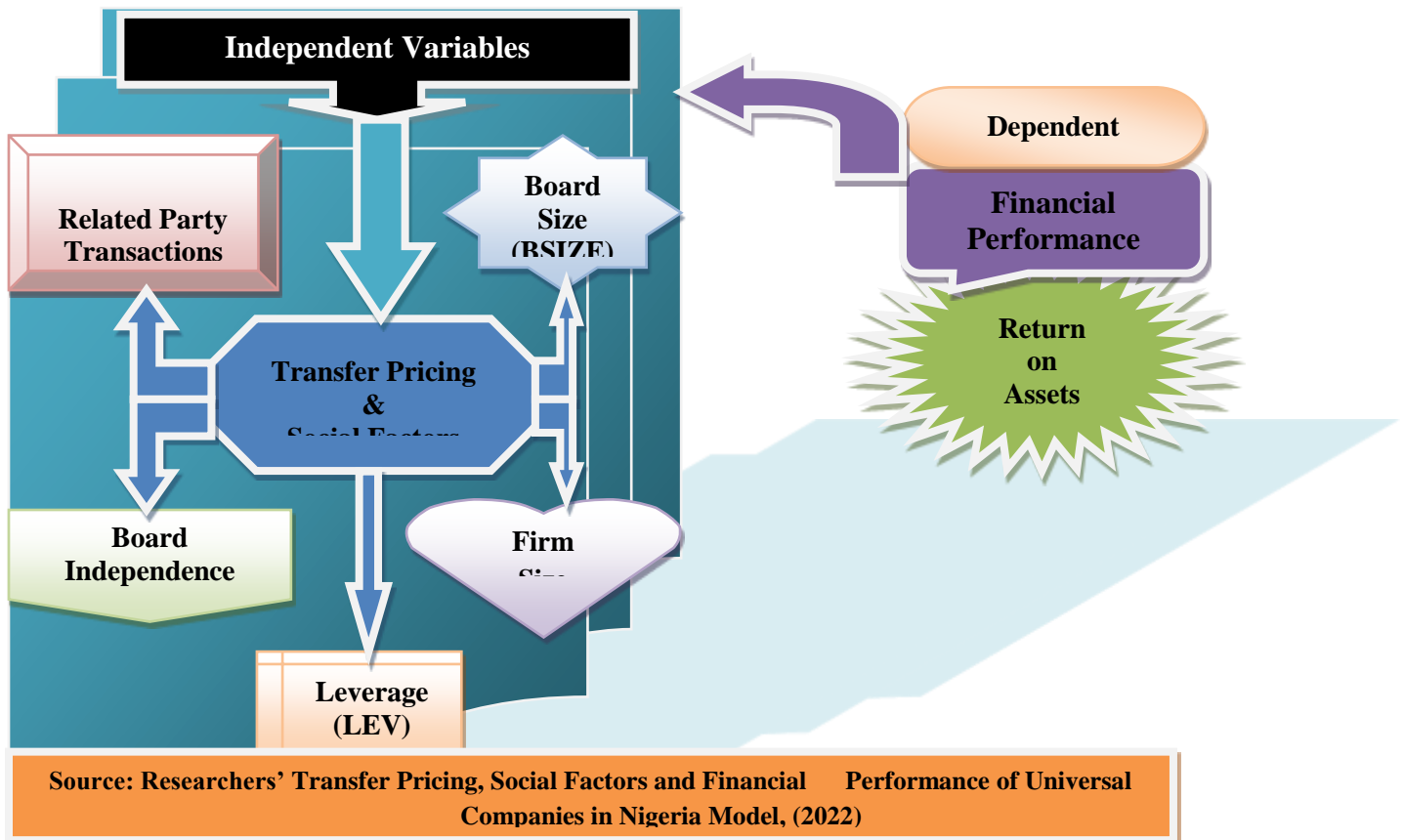
Mamidu and Akinola (2019) and Suleiman, et al. (2020) assert that financial success is a gauge of a company's capacity to produce new resources via ongoing activities. It may be compared to companies in the same industry or to other sectors of the same industry, and it is used to assess a company's overall 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 the ability to generate enough, growth in sales, utilization of capital and financial resources, end-of-year 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 (ROE). ROA

is a metric for evaluating how well a company uses its resources to produce 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).

### 2.1.9 Conceptual Framework on Transfer Pricing, Social Factors and Financial Performance of Universal Companies in Nigeria



## 2.2 Theoretical Foundation

### Agency Theory

The foundation of agency hypothesis is the principal-agent relationship, in which one party specifies the obligations of the other while the other party delegates those responsibilities to the second party (the agent) (Jensen & Meckling, 1976). The investor (principal), who hires the expertise of the opposing party (agent), establishes the conditions of the engagement, as well as the obligations and responsibilities, and assigns the agent control over the operation of the company to carry out tasks on their behalf (Al-Matari et al., 2014). According to the argument, parties want self-aggrandizement and are self-motivated. This self-interest presumption dooms agency theory to inescapable intrinsic conflicts. The parties' self-interested incentive causes the agent to veer away from the principal's intended course of action and even run afoul of assumptions (Adams & Ferreira, 2009).

It is anticipated that agents would operate in their principals' best interests. The "Agency Loss" criteria are used to determine whether an agent is operating in the owner's best interest or to the

opposite. The difference between the principal's best-case scenario expectations of repercussions and the outcomes brought about by the agent's actions is known as agency loss. Agency loss is zero when an agent achieves the principal's anticipated outcomes; on the other hand, agency loss increases when more principal agents' covenants are broken (Brahma, et al., 2020).

Prior empirical research on transfer pricing (Garcia-Meca et al., 2015; Munyradadzi et al., 2016) reveals that when principal and agent aims are comparable, agency loss is reduced. This suggests that both sides anticipate a similar conclusion. Second, agency loss is reduced when the principle is fully aware of the acts of the agent and their effects. For the agent to operate in the principal's best interests, it must be obvious to him or her. According to Martin & Minquez-Vera (2014), agency theory is predicated on the idea that individuals are driven by self-interest and as a result, want to maximize their own financial well-being. Agents must execute duties in a way that maximizes wealth for all parties while eradicating self-interest in order to mitigate these issues.

### 3.0 Methodology

To examine the influence of transfer pricing, social factors on financial performance, the study utilized the panel data research. The target population of this study was the eighteen (18) universal companies. The selection of the period is as a result of the uniformity in data collection. The data were obtained from the annual reports of listed companies between 2012 and 2021 (10 years). Since the population of the study is not large (that is less than 30), census sampling technique was adopted by using all the 18 companies based on the variability of the data. This study engaged a panel regression technique of data analysis for testing the hypotheses. The panel regression technique was used to find out the significant relationship between the variables.

### 3.1 Model Specification

In this research work, a model (based on panel regression) will be developed to help to establish the relationship between the dependent variable: return on assets and the independent variables, related party transaction, board size and board independence. Control variables will include firm size and leverage (Abassi & Malik, 2015; Ogbeifun & Akinola, 2019; Prawati & Hutagalung, 2020). Also, the model was adopted from the work of Merle et al. (2019) to verify the performance of the introduced variables in producing expected results. Guided by the implicit and the explicit form of the model, the following relationships exist between the variables of the study. The implicit form of the model is shown below:

$$ROA_{it} = \alpha + \beta_1 RPT_{i,t} + \beta_2 BSize_{i,t} + \beta_3 BIND_{i,t} + \beta_4 FSize_{i,t} + \beta_5 LEV_{i,t} + \varepsilon_{i,t} \dots \dots \dots 3.1$$

Where:

ROA = Return on Assets

RPT = Related Party Transactions

BSIZE = Board Size

BIND = Board Independence

FSize = Firm Size

LEV = Leverage

**Table 1 Measurement of Variables**

Variables	Measurement	Source
RPTs	This is measured as the natural logarithm of total value of related party transactions entered into by the companies	Anastasia & Onuora (2019)
BSize	This is measure as natural logarithm of total	Tabash et al. (2021)



	members of the board.	
BIND	The percentage of outside directors on the board, calculated by dividing the number of outside directors by the number of total directors on the board	Rashid, (2018)
Firm Size	Firm size is measured by the natural logarithm of total assets.	Akinyomi & Adebayo (2013)
Leverage	Leverage is measured as the ratio of debt to equity	John-Akamelu et al (2017)
Return on Assets	Return on Assets is measured by ratio of net income to total assets	Njuguna and Moronge (2013)

**Source: Researchers' Compilation, (2022)**

## 4.0 Results

### 4.1 Descriptive Analysis

This section of the analysis provides an overview on the data set while attempt is also made to describe the main attributes of the data.

**Table 2 Descriptive Statistics**

	BFSIZE	BIND	FSIZE	LEVERAGE	ROA	RPTs
Mean	7.358319	0.6060	18.202034	0.395837	-0.024393	8.087100
Median	7.824600	0.6500	18.693000	0.519797	0.15000	8.121847
Maximum	13.130800	0.7800	19.975000	0.783420	0.250000	9.094562
Minimum	5.026900	0.2500	15.830000	-0.961744	-0.095000	7.800433
Std. Dev.	1.343812	193.1007	1.396354	1.409194	0.036971	11.34716
Skewness	-0.386295	1.462225	-0.506505	4.367087	2.578864	6.884331
Kurtosis	1.557822	4.552102	1.577753	23.41305	16.02090	50.88267
Observations	180	180	180	180	180	180

**Source: Researchers' E-views Output, (2022)**

The descriptive statistics presented in table 2 gave a glimpse of the central tendencies, measure of dispersion, minimum and maximum values, degree of peakedness, asymmetric value, and the Jarque-bera statistics of all the series used in the study.

The table showed average values of 7.35, 0.6060, 18.202, 0.395, 0.1244, 8.0871 for board size, board independence, firm size, leverage, ROA and RPTs. It was observed that BIND, Leverage, ROA and RPTs were skewed to the right, given their corresponding positive skewness statistics of 1.4622, 4.367, 2.579 and 6.884 respectively. Their positive values of skewness show that, the coefficients of the variables are positive and their means are greater than median values, also the positive skewed distribution is also showing that there is lower risk than what the standard deviation measures. On the other hand, BSize and Firm Size were negatively skewed showing their corresponding values of -0.386 and -0.5065 respectively. Thus, the negatively skewed distribution is an indication that there is greater risk than what the standard deviation measures.

As regards Kurtosis, a kurtosis with distribution greater than 3 is a leptokurtic distribution. A leptokurtic distribution (greater than 3) has a sharper peak with lower probability than a normal distribution of kurtosis whose value is equal to 3. A kurtosis with less than 3 is a platykurtic distribution which has a lower and wider peak with higher probability than leptokurtic and normal distribution. Notably, the kurtosis statistics revealed that BIND (4.552), Leverage

(23.41), ROA (16.02) and RPTs (50.88) were leptokurtic (i.e positive kurtosis values are greater than 3) while BSize (1.558) and firm size (1.5778) were platykurtic (i.e. positive kurtosis values are less than 3).

The above analysis is meant to only reveal the descriptive statistics of each of the variables. Therefore, no inference was drawn from the characteristics observed. It can also be seen that all the variables have 180 observations. This can be attributed to availability of information on the variables used in the study.

## 4.2 Correlation Analysis

**Table 3 Correlation Matrix of Variables**

	BSIZE	BIND	FSIZE	LEVERAGE	ROA	RPTs
BSIZE	1.000000					
BIND	0.380935	1.000000				
FSIZE	-0.111626	-0.061214	1.000000			
LEVERAGE	0.185759	0.035837	0.063416	1.000000		
ROA	0.130484	-0.020414	0.087168	0.084707	1.000000	
RPTs	-0.168689	-0.145179	0.012712	-0.247423	-0.253993	1.000000

**Source: Researchers' E-views Output, (2022)**

The correlation matrix table shows the correlation coefficients between the variables under study. Each cell in the table shows the relationship between two variables. This helps to see which pairs have the highest correlation.

The table 3 briefly showed the relationship between the independent and the dependent variables. ROA was positively related to board size, firm size and leverage at 0.13, 0.087, and 0.0847 respectively. This denotes that an increase in board size, firm size and leverage brought about a corresponding increase of 13 per cent, 8.7 per cent and 8.5 per cent in return on assets. On the other hand, ROA was negatively related to board independence and related party transaction at -0.020 and -0.254 implying that as board independence and RPTs increases, there was a corresponding decrease of 2 per cent and 25.4 per cent in ROA.

## 4.3 Unit root Diagnostic Test

**Table 4 Unit Root Test Results**

Augmented Dickey-Fuller(ADF)			
Variables	Level	I(d)	Remarks
BSIZE	0.0335**	I(0)	Stationary
BIND	0.0000**	I(0)	Stationary
FSIZE	0.0001**	I(0)	Stationary
LEVERAGE	0.0444**	I(0)	Stationary
ROA	0.0001**	I(0)	Stationary
RPTs	0.0096**	I(0)	Stationary

*\*\*5% level of significance*

**Source: Researchers' Extract from Unit Root Test Result, (2022)**

The tool of unit root test (ADF) was tested for all the variables by taking null hypothesis as 'presence of unit root test (i.e presence of non-stationarity) against the alternative hypothesis 'series is stationary'. If the absolute probability value exceeds the bench mark probability value (0.05), then, null hypothesis is accepted and it is concluded that series is stationary and vice-versa. It is clear from the tables 4 and 5 above that the results for unit root test of ADF show that all the variables are stationary at their level form indicated as I(0). This implies that there is no form of co-integration relationship among the variables.

#### 4.4 Test of Hypotheses

H<sub>0</sub>: Transfer pricing and social factors have no significant influence on the financial performance of listed multinational companies in Nigeria.

**Table 5 Regression Results**

Dependent Variable: ROA					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
Bsize	-0.893358	69.23518	4.193472	0.0001	
Bind	6.266479	4.556693	-1.375225	0.0018	
Fsize	5.492865	66.86224	-3.952701	0.0001	
LEVERAGE	-1.340215	12.05611	-2.604666	0.0105	
RPTs	0.317148	0.782692	0.405202	0.6861	
C	235.9004	106.4402	2.216271	0.0288	
R-squared	0.676422				
Adjusted R-squared	0.600619				
Prob(F-statistic)	0.000215				

**Source: Researchers' E-views Output, (2022)**

Findings from the regression analysis using in table 5 indicated that, R<sup>2</sup> (coefficient of determination) of the variables was 0.676. As a measure of the overall fitness of the model, the R<sup>2</sup> indicated that, the model was capable of explaining 67.6 per cent of the variation in the dependent variable which could be traced to the independent and control variables, and that the residual of the variations in return of assets of universal companies were accounted for by other factors not captured by the model.

Similarly, findings from the F-Statistic which is a proof of the validity of the estimated model presented a p-value of (0.000215) less than 0.05. This suggested clearly that collectively, the independent and control variables were significantly associated with the dependent variable (return on assets). Specifically, transfer pricing revealed a significant influence on financial performance. Thus, the null hypothesis was rejected, implying that transfer pricing and social factor have significant effect on return on assets of listed universal companies in Nigeria.

#### 4.5 Discussion of Findings

Concerning board size, there was huge negative relationship with business success as shown by the coefficient (-0.8933) and p-value (0.0001). The discoveries of this study support findings (Tabash et al., 2021; Sari, 2020; Munyradadzi et al., 2016; Pamungkas & Nurcahyo, 2018; Agosto et al., 2018) of a few different examinations that bigger board sizes are related with greater contribution in transfer pricing practices. This might be credited to the contention that

boards in multinational organizations, whether huge or little, may not be adequately autonomous, and are ineffectual in standing up to strong, predominant investors.

In addition, board independence was found to be positively significant with ROA. This is evident with the coefficient (6.267) and p-value (0.0018). This means that the presence of independent directors ensure strict monitoring of executives in the practice of transfer pricing. This outcome is in support of (Boateng & Huang, 2017; Fang et al., 2018). This also indicates that the presence of independent directors in the companies' board of directors is not associated with negative RPTs. A possible explanation of this finding is that companies with government ownership are under more scrutiny, especially given the size and economic significance of several of these companies, leading to lowering the level of RPT use.

Discoveries of this study connected with leverage are for the most part reliable with existing literature that recommends that organizations with high obligation levels attempt to cover such execution by misguidedly utilizing RPTs, and that organizations with high proprietorship fixation could utilize RPTs in tunneling exercises to dispossess assets to prevailing investors.

There was a positive significant relationship between firm size and financial performance. This implies that as the companies increase in size, the financial performance increase. This is a clear signal of the fact that the increase in size of firms brings about economies of scale large firms should enjoys, and as a result, enhances the level of performance. In addition, this result means that as these companies grow, most times, owners are at alert to monitor and control unusual accounting practices by managers because the managers tend to pursue size related objective rather than wealth related objective that is, maximizing shareholders wealth. The result in this Dioha et al (2018) whose finding supports the resource based theory which articulates a positive and significant relationship between firm size and profitability of a firm.

### **5.0 Conclusion**

As can be inferred from the result, only RPT was not significantly associated with financial performance. However, the overall model was significant as revealed by the p-value of 0.000215 which is less than 0.05. It can be concluded that transfer pricing and other social factors identified in this study have explanatory power to influence the financial performance of universal companies in Nigeria.

As a result, it is prescribed that controllers ought to grow their rules to extend the divulgence of transfer pricing practices by universal companies, and to grow controls and checking over transfer pricing in companies through improving governance strategies, including expanding the control of minority shareholders and autonomous board individuals in endorsing such transactions.

In addition, governance structure codes and other regulations in Nigeria got to be progressed and well administered with respect to moderating negative impacts of transfer pricing, and extraordinary consideration ought to be given to companies with high obligation levels and high ownership concentration as to checking their transfer pricing exercises.

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