

## Transactions Transfer Pricing Policies and Performance of Corporate Organizations' in Nigeria

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**Abstract:** This analysis looked at how different transaction transfer pricing regulations affect the bottom line. To be more precise, the research looks at how variables like target price, interest rate, inflation rate, and exchange rate affect the bottom line of food and beverage firms that are publicly traded in Nigeria. The research used secondary data collected from the financial reports of the 21 firms studied, with a sample size of 5. (2012 - 2021). Methods from panel regression analysis were used in the research. With a coefficient of 0.222465 ( $p = 0.3297 > 0.05$ ) and 0.151676 ( $p = 0.0074 > 0.05$ ), respectively, the fixed effect result demonstrated that transfer price and interest rate maintained a positive but insignificant relationship with profit after tax, while inflation rate and exchange rate were discovered to be negatively and insignificantly related with coefficients of -0.598881 ( $p = 0.5331 > 0.05$ ) and -0.051286 ( $p = 0.5919 > 0.05$ ), respectively. The research found that there was a positive as well as negative effect of transactions transfer pricing rules on the performance of businesses. Most notably, when considering net income. This result led to the conclusion that the food and beverage industry would benefit from having a system in place to protect against fluctuations in exchange rate and inflation due to expected adjustments in these variables.

**Keywords:** Transfer Pricing, Target Price, Interest Rate, Exchange Rate, Performance

**JEL Classification:** E31

### 1. Introduction

The concept of transfer pricing often brings up mental pictures of one company's division selling goods or services to another. Adding more stores is a normal part of any company's growth strategy. All of the divisions and offices are dispersed across the world, as befits a corporation with a worldwide presence. They both work for the same ends but report to different managers. The monetary worth of a deal struck between affiliated businesses is one meaning of the term “transfer price” (Mutua, 2012). (Mutua, 2012). When combining financial statements, it is common practice to exclude all intercompany transactions. However, for tax purposes, controlled overseas firms and their U.S. parent corporations are considered distinct entities. For the purposes of assessing the financial outcome of each business unit, it is necessary to ascertain the internal prices (so-called transfer prices) at which commodities, services, money, and other assets are moved from one business unit to another (Mutua, 2012). (Mutua, 2012). With the new transfer fees in effect. In certain cases, parties rely on third parties to perform these functions rather than engaging in them directly with one another (Meckling, 2017). (Meckling, 2017). According to Garrison, a transfer price is the selling price at which one business unit or division transfers its products or services to another (2008). (2008). The term “transfer pricing” refers to the methodology used to determine the internal costs of moving

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products, services, funds, or other assets from one division of a company to another, and the subsequent determination of the financial outcome for each division after accounting for these costs. These duties are occasionally delegated to specialized intermediate units (transfer centers) instead of being carried out directly between units (Fields & Mais, 2004) (Fields & Mais, 2004)

The already difficult condition of double taxation of multinational enterprises, which may involve substantial amounts of money, is likely to worsen as a result of the unequal development of national legislation. In order to identify where value is produced and how much tax should be paid in each country, multinational corporations employ transfer pricing, which involves comparing the costs incurred and the prices invoiced by different subsidiaries within the same group. Therefore, the government routinely undertakes price inspections to guarantee that agreements established inside businesses are fair (Kim & Lu, 2011) (Kim & Lu, 2011). The connection between transfer transaction price enforcement and organizational effectiveness is becoming more intricate. Hence, this study seeks to examine the effect of transaction transfer pricing policies and performance of listed food and beverage firm in Nigeria. Specifically this study:

- (i) examine the effect of target price on return on asset of listed food and beverage firms in Nigeria,
- (ii) investigate the effect of import rate on return on asset of listed food and beverage firms in Nigeria;
- (iii) evaluate the effect of interest rate on return on asset of listed food and beverage firms in Nigeria; and
- (iv) analyze the effect of exchange rate on return on asset of listed food and beverage firms in Nigeria.

## **2. Literature Review**

### **2.1. Conceptual review**

#### **2.1.1. Transfer Pricing**

Transfer pricing” describes how a multinational corporation decides which tax jurisdictions to distribute its net revenue to among its foreign-controlled subsidiaries. Transfer pricing has a direct effect on how a company's global taxable income is split up between the tax authorities of several nations (Kiabel, 2009). As a result, a company's transfer pricing policies may have an immediate effect on its after-tax earnings to the extent that tax rates differ across national jurisdictions. A transfer price is the price at which one company's division or sector sells its goods or services to another, as defined by Garrison (2008). The “transfer price” is the cost incurred when one business entity transfers goods and services to another business entity within the same business entity (ICAN, 2014). Transfer pricing, as defined by Arrow, is the price at which one business in a group sells its goods, services, or intellectual property to another company in the same group (1970). These changes have been driven in large part by the rise of the digital economy and the monetary worth of intangible assets such as brands. A transfer price is the price at which one company's division or sector sells its goods or services to another, as defined by Garrison (2008). According to Arrow, “transfer pricing” is the price at which one business in a group sells its goods, services, or intellectual property to another company in the same group (1970). The tax legislation governing multinational corporations now appears antiquated in comparison to their actual business activities, despite the fact that the rise of the

digital economy and the value of intangible assets like brands have been instrumental in facilitating changes to transfer transaction pricing policy (Needham, 2013).

### **2.1.2 Target Price**

Optimal stock price projections for the future. If the money from the stockholders can only go so far, then that's all there is to it. A stock's breakeven point is when its price equals the analyst's projection of future earnings without costing too much for the buyer. Analysts raise their price targets for stocks because they expect their prices to rise. According to Bradshaw et al. (2013), target pricing has a significant effect on bottom lines. Investors set a target price when they anticipate making a profit based on the value of their present assets. However, target pricing are often inaccurate and frequently too optimistic (Bradshaw, 2013).

### **2.1.3 Interest Rate**

An interest rate is the annual percentage rate at which a loan, deposit, or borrowing is repaid. The interest rate is often seen as a reflection of the relative importance of now and future revenue. An interest rate is a fee paid by the borrower for the benefit of obtaining their loan cash soon. The real interest rate is the rate received by investors, savers, and lenders after adjusting for inflation. Specifically, the real interest rate is defined as the difference between the nominal interest rate and the inflation rate. This is according to research done in 2014 by Kituku.

### **2.1.4 The Inflation Rate**

Inflation is the overall rise in prices or the cost of living in a specific country, measured as a percentage increase in the cost of a basket of goods and services over a certain time period. The yearly percentage rise in the price level of a market basket of goods and services is the definition of inflation. The impact of inflation on a business' bottom line will depend on the company's activities and the nature of the industry in which it operates. In the face of rising prices, a business that sells products with low price elasticity of demand may be able to keep its profit margins stable by passing the increased costs on to its consumers (Okoh, & Munene, 1986).

### **2.1.5. The Exchange Rate**

The value of one currency expressed in terms of another currency is referred to as the exchange rate. The quantity of money that is transferred internationally in one currency expressed in terms of another international currency. The price at which one unit of a foreign currency may be purchased with one unit of a domestic currency is known as the exchange rate. Exchange rates are used to facilitate transactions on local and worldwide markets that include the exchange of goods, services, and financial assets (Reid & Joshua, 2004). According to Omagwa (2005), the value of a currency may be explained using the same supply-and-demand principles that are used to determine the price of commodities. The impact of the exchange rate on the performance of Nigerian enterprises is attracting increased attention as a result of the direct effect the exchange rate has on the level of the domestic selling price, profits, and decisions regarding the allocation of resources and investments (Kituku, 2014). When the exchange rate is very high, such as N650 to one US dollar, it is challenging for companies to maintain their pricing and expenses at the levels that were initially planned.

### **2.1.6. Performance of the Corporate Organization**

The success of management may be gauged by how much value it creates for the organization. Spending money wisely to achieve long-term objectives, ensure the company's continued

sustainability, and boost its future prospects is an essential part of financial management. Classical causes of disagreement center on questions such whether or not the company's finances were managed properly, whether or not sales met or exceeded forecasts, and whether or not all available resources were put to good use (Adekunle & Asaolu, 2013). There are three indicators of an organization's success. In the first place, there is the productivity of the business, which measures how well inputs are converted into final products. The second consideration is the business' profitability, or the ratio of its income to its costs. As a third factor, we must look at the market premium, or the amount by which a company's market value exceeds its book value (Weinraub, 2004).

### **2.1.7 Target Prices and Performance**

The target price had a major effect on a business' bottom line. Investors can use target pricing to help them figure out where they can make the most money. Several studies (Bradshaw, 2013) It is commonly held that the success of a business is proportional to the effectiveness of its management, and that poor performance on the part of either can have a negative impact on the other. Due to the fact that shareholders' money is at stake, any changes to the company's capital structure or asset allocation must first prove profitable. According to Vishnani and Shah (2007), return on investment (ROI) decreases if total asset expenditures are not reasonable. Regardless of the cost, a company's financial resources should be managed in a way that optimizes the trade-off between the firm's performance and the risk associated with that performance. However, success is measured in terms of financial gain. In order to survive and grow, a company needs to generate a profit. “(Rahman, 2011)

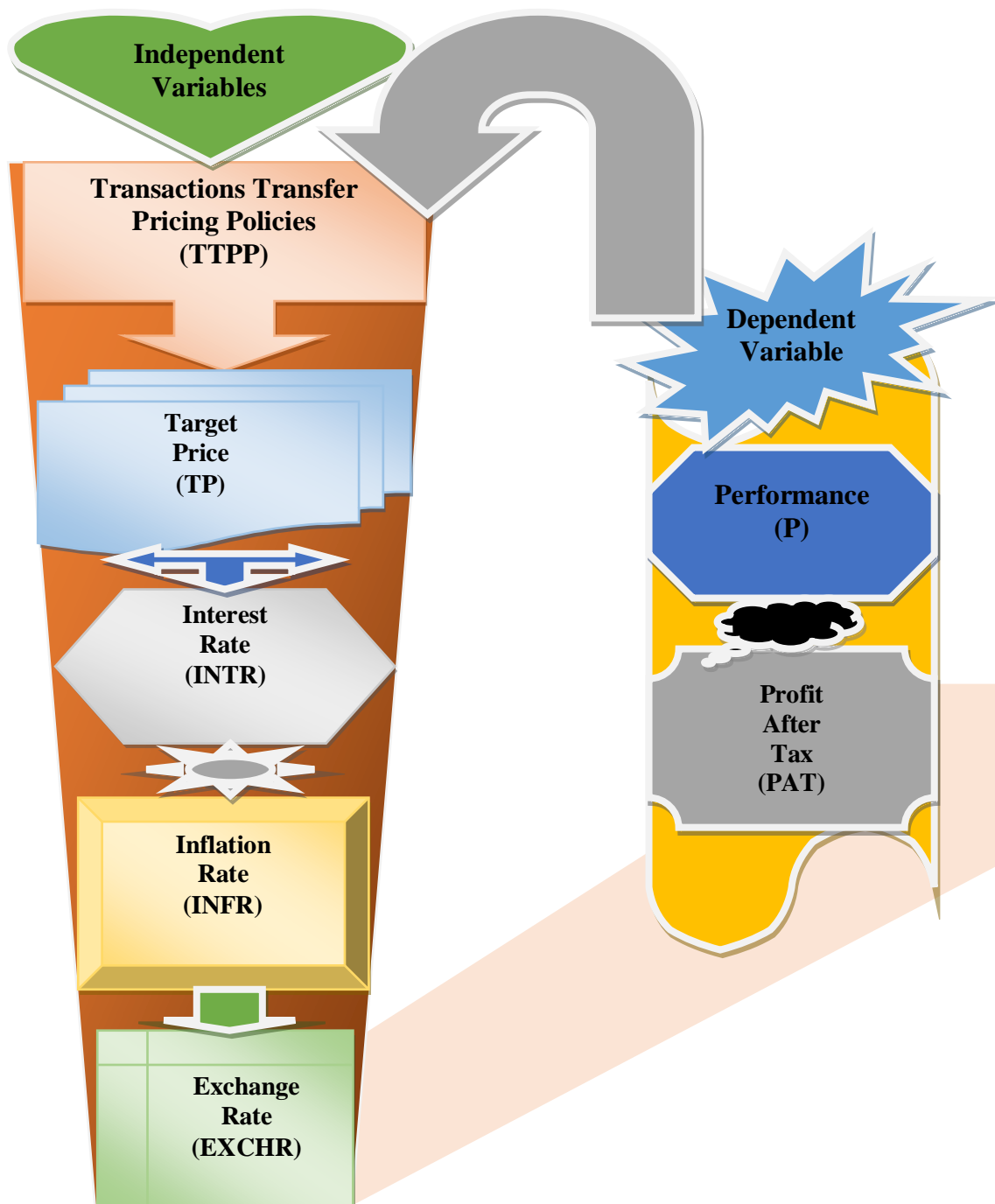
### **2.1.8 Interest Rate on Corporate Performance**

In the process of manipulating interest rates, the central bank may affect the economy and currency values. In the long run, it's more profitable for lenders to operate in a country with a higher interest rate. Since higher interest rates are attractive to investors from abroad, their presence causes a rise in the value of the currency. However, the effect of higher interest rates is nullified if inflation is significantly higher than in other countries or if other factors contribute to push the currency down. When interest rates go down, however, the value of a currency often goes down with them, which might be detrimental to a business' bottom line. (Jason, 2017).

### **2.1.9 Inflation Rate on corporate Performance**

If a country's inflation rate stays below the average of other nations, its currency may gain value over time. The United States and Canada didn't achieve their present levels of price stability until much later, far after the emergence of countries with low inflation like Japan, Germany, and Switzerland in the second half of the twentieth century. Currency depreciation versus the dollar is a regular occurrence in countries with high inflation rates. Loan rates also tend to increase in accordance with this trend. While moderate inflation may be beneficial to the manufacturing industry, high inflation may damage a business' bottom line by increasing the cost of inputs and dampening consumer demand (Faria & Carnerio, 2001).

### 2.1.10 Conceptual Framework on Transactions Transfer Pricing Policies and Performance of Corporate Organizations in Nigeria



Source: Researcher's Transactions Transfer Pricing Policies and Performance of Corporate Organisations' in Nigeria Model, (2022)

## **2.2 Theoretical Review**

### **2.2.1 Purchasing Power Parity**

It is on the PPP that we build the rest of our research. The hypothesis was developed by Menon and Viswanathan (2005). According to this theory, goods would cost the same in all countries, despite having different currencies. To the extent that the inhabitants of different countries have about the same purchasing power, the value of their respective currencies will be close. Reid and Joshua (2004) proposed a theory stating that the ratio of commodities price levels should mirror the currency of the country. Ross (2008) suggests that incorrect valuation of the currency might be to blame for this phenomenon of diminished purchasing power. The premise of this theory is that all items being traded are similar, there are no transaction costs, and there are no barriers to trade. If the trade currency is exchanged at the current exchange rate, the cost of a standardized product should be the same in every nation. This reasoning suggests that price indices might be used to evaluate regional differences in the price of a product. It may be difficult to estimate Purchasing Power Parity based on price indexes since countries use different products to determine their price level (Reid, 2005). This concept is crucial because it explains the difference in value between currencies from different countries. That is, the exchange rate at which one unit of currency can purchase the same number of goods and services in each nation is the fair exchange rate.

### **Empirical Evidence**

Ms. Jillian (2019) looked on the factors that influence the transfer pricing techniques used by MNCs in Rwanda. To do this, a quantitative approach was used to a statistically significant subset (n=32) of the study population (officially recognized MNCs active in Rwanda). Univariate analysis included 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 Rwandan 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 MNCs' pricing choices in Rwanda.

Williams (2018) looked at how fluctuating exchange rates for the Nigerian currency impacted local commerce. Focus on the impact of fluctuating exchange rates on return on investment. Both descriptive and standard least squares techniques are used in the study. 2012–2016 were the time span covered by the study. Since most of the sample businesses deal in foreign currency, fluctuations in the exchange rate naturally have a substantial effect on return on investment. Regression results suggest a favorable association between ROI and exchange rate. As a consequence, if the exchange rate goes up by 1%, the return on investment goes up by 14%. Currency exchange rates were discovered to have an impact on company performance.

Monthly data from South Sudan's economy between 2011 and 2014 was analyzed using a granger-causality method by Pitia and Lado (2015), who discovered a connection between the exchange rate and inflation. We found that there is a direct causal link between the exchange rate and CPI. The South Sudanese economy will likely suffer as a result of the depreciation of the currency, as indicated by this. However, there is no other way to verify the accuracy of the statistics with greater assurance, since CPI had no impact on the exchange rate. It's possible that the response of monetary authorities to

a growing price level affected the exchange rate by bringing increasing costs into line with customers' capacity to spend.

### 3. Methodology

In this qualitative study, we looked at how a cross-section of publicly traded Nigerian food and beverage companies were affected by the price of their transfer transactions and how it translated into their day-to-day business. Secondary data, mostly from the evaluated firms' annual reports, was used in the inquiry. A total of twenty-one food and beverage firms were listed on the NGX as of May 30, 2022; five were chosen at random for this research. Companies including Coca-Cola, Presco, Nestle, Unilever, and Berger were chosen for this study. The transfer transaction price is an independent variable that was assessed against the target price, interest rate, inflation rate, and currency exchange rate, with organizational performance as evaluated by profit after tax acting as the dependent variable. A technique called regression panel data analysis was performed, and the investigation covered a full decade (from 2012 to 2021) (from 2012 to 2021).

#### 3.1 Model Specification

According to the study's model, the link between transfer transaction price and the performance of Nigeria's food and drink companies is functional.

$$PERF_t = f(TTP_t) \dots\dots\dots 3.1$$

Where;

PERF = Performance

TTP = Transactions Transfer Pricing Policies

However, the amount of money left over after taxes is calculated is dependent on a number of different factors. To that end, the effect of the following target price, interest rate, inflation rate, and exchange rate combinations on the profit after tax of listed food and beverage enterprises particular to the Nigerian economy is provided:

$$PAT = f(TP, INTR, INFR, EXCHR) \dots\dots\dots 3.2$$

For the sake of brevity, we may express this model using equation form.

$$PAT = a_0 + a_1TP + a_2INTRA_3INFR + a_4EXCHR + \mu \dots\dots\dots 3.3$$

Where:

PAT = Profit After Tax

TP = Target Price

INTR = Interest Rate

INFR = Inflation Rate

EXCHR = Exchange Rate

$a_0$  = Intercept or constant term of the model

$a_1, a_2, a_3$  and  $a_4$  = Parameters to be estimated.

$\mu$  = Error term.

## 4. Results

The research starts its analysis with descriptive statistics, and the results of this test are presented in table 4.1; the study's goal is to examine the transfer pricing policy and organizational performance of listed food and beverage firms in Nigeria.

### 4.1 Descriptive Statistics

**Table 4.1. Descriptive Statistics of Variables**

	<b>PAT</b>	<b>TP</b>	<b>INT</b>	<b>INF</b>	<b>EXCHR</b>
Mean	30.40646	105.3768	161.9667	12.26100	113.4341
Median	5.683347	110.1800	157.4994	12.05000	17.55502
Maximum	193.3743	215.4300	352.2135	18.55000	352.2135
Minimum	2.168867	4.230000	12.31933	7.960000	12.31933
Std. Dev.	51.99387	69.49370	135.7015	3.196342	130.7081
Skewness	1.957364	-0.091737	0.159290	0.354276	0.821726
Kurtosis	5.480602	1.715251	1.423705	2.410389	2.006485
Jarque-Bera	44.74684	3.508838	5.387916	1.770181	7.683347
Probability	0.000000	0.173008	0.067613	0.412677	0.021458
Sum	1520.323	5268.840	8098.335	613.0500	5671.706
Sum Sq. Dev.	132464.7	236639.3	902330.5	500.6135	837145.9
Observations	50	50	50	50	50

*Source: Researcher's Data Analysis, (2022)*

According to Table 4.1, the average rate of inflation is 12.26100, the average transfer price is 105.3768, and the average net profit is 30.40646. The average rate of exchange is 113.4341, the average interest rate is 161.9667, and the average inflation rate is 12.26100. The numerals 2,168867, 4,230000, 12,31933 (twice), and 7,960000 are the ones with the fewest digits. The next smallest number is 12,33933. For instance, the limit for net income is \$185,000, the limit for transfer prices is \$215,000, the limit for interest is \$352,000, the limit for inflation is \$185,000, and the limit for currency exchange rate is \$18,000. When compared to the inflation rate, the interest rate exhibited the greatest amount of variance (as measured by standard deviation), while the inflation rate showed the least amount of change. In accordance with the findings of Skewness, only transfer price has a long left tail due to the fact that it has a negative value. On the other hand, all other variables, such as profit after tax, exchange rate, inflation rate, and interest rate, have a long right tail due to the fact that they have positive values. While all of the variables are either exactly 3 or less than 3, which indicates that they are platykurtic, the net income is more than 3, which indicates that it is leptokurtic. Using Jarque-Bera statistics, the data was analyzed, and the results indicated that only transfer prices and inflation rates followed normal distributions.



**Table 4.2. Fixed Effect Result**

Dependent Variable: PAT  
Method: Panel Least Squares  
Date: 08/30/22 Time: 22:25  
Sample: 2012 2021  
Periods included: 10  
Cross-sections included: 5  
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TP	0.222465	0.225537	0.986378	0.3297
INT	0.151676	0.053866	2.815782	0.0074
INF	-0.598881	0.952719	-0.628601	0.5331
EXCHR	-0.051286	0.094675	-0.541703	0.5910
C	-4.442280	16.06031	-0.276600	0.7835

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.903767	Mean dependent var	30.40646
Adjusted R-squared	0.884990	S.D. dependent var	51.99387
S.E. of regression	17.63277	Akaike info criterion	8.738945
Sum squared resid	12747.50	Schwarz criterion	9.083109
Log likelihood	-209.4736	Hannan-Quinn criter.	8.870004
F-statistic	48.13108	Durbin-Watson stat	0.383594
Prob(F-statistic)	0.000000		

Source: Researcher's Data Analysis, (2022)

Using the calculated panel regression model, we can see that transfer price and interest rate both had positive but insignificant relationships with profit after tax, with coefficients of 0.222465 ( $p = 0.3297 > 0.05$ ) and 0.151676 ( $p = 0.0074$ ), respectively, as shown in Table 4.2. This held true even when a control for the heterogeneity impact among the study's sampling food and beverage enterprises was included to the model as an intercept variable. This suggests that for every percentage point change in transfer price and interest rate, the chosen food and beverage firms in Nigeria saw a 0.2 percentage point rise in profit after tax and a 0.1 percentage point drop. Coefficient = -0.598881,  $p = 0.5331 > 0.05$ , and  $r = -0.051286$ ,  $p = 0.5919 > 0.05$ , respectively, indicate a negative and statistically insignificant relationship between inflation and the exchange rate. Therefore, a 1% change in either inflation or exchange rates caused a 59% and 51% decline in the chosen enterprises' profit after tax, respectively.

Cross-section specific estimate yielded an R-square of 0.8849 (table 4.2), suggesting that about 88% of the systematic variation in profit after tax can be attributed to differences in transfer pricing and transactional factors.

#### 4.3 Discussion of Findings

This study set out to determine how the Nigerian government's transfer pricing policy had an effect on the bottom lines of food and beverage companies in the nation. That was the goal of this study, which is why out of a total of 21 food and beverage firms listed on the Nigeria Exchange Group as of May

30, 2022, 5 were selected as the sample to analyze. The years 2012 through 2021 were utilized for the calculations shown here. The fixed effect model was adopted for analysis because it performed better in the Hausman test, which was conducted on the data. Research found that the exchange rate has a detrimental effect on the profits of Nigerian food and beverage businesses. The present negative currency rate inside the nation is likely hurting food and beverage industries in Nigeria, according to this report. Several other writers, not only William (2018), agree with this conclusion. Moreover, it was shown that the inflation rate in Nigeria had a negative correlation with the success of food and beverage enterprises there. Thus, the inflation rate is detrimental to the growth of the food and beverage industry in Nigeria. In line with previous studies by Pitia (2015) and others, our study found the same thing. Success in the food and drink industry in Nigeria was only tangentially correlated with the interest rate. In the Nigerian food and drink industry, the correlation between target price and actual sales is positive and not statistically significant. The results of this study support the findings of Jillian (2019) and others.

## 5. Conclusion

These findings suggest that the performance of Nigeria's food and beverage businesses is negatively correlated with the country's currency rate and inflation rate. Profitability in the Nigerian food and beverage industry rises in tandem with the interest rate and target price. This is especially true when looking at profit after tax. The findings show that the negative exchange rate and inflation rate in Nigeria have an effect on the performance of food and beverage businesses there. Secondly, the study shows that interest rate and target price positively affect the output of Nigeria's food and beverage companies. According to the findings, transfer pricing legislation and transactions have a deleterious effect on corporate results. The findings prompted recommendations that the food and beverage sector take precautions against the expected increase in exchange and inflation rates due to fluctuations in global monetary policy.

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