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Implementation and enforcement of transfer pricing regulations should improve tax revenue growth in Nigeria. Is this true? Does institutional capacity have a role?

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Abstract
Purpose: Multinational corporations' questionable profit-shifting practices have become commonplace, necessitating immediate attention to transfer pricing laws if the government is to fulfill its mandate to its citizens. Furthermore, it is imperative that the state develop capacity such as strategic planning and human resource capabilities that can ensure that the implementation of transfer pricing regulation explains a significant improvement in tax revenue for the government. Hence, this study examined the mediating effect of institutional capacity on the interaction between transfer pricing regulation and tax performance in Nigeria.
Methods: A validated questionnaire was employed to gather data from 612 staff members of the federal inland revenue service who work in the international tax department. A partial least-square-structural equation model was used to examine the three-way mediation hypotheses.
Findings: The findings indicate that the specific indirect effect of institutional capacity on transfer pricing regulation's tax revenue performance is significant enough to suggest a full mediating effect (β= 0.286, t = 2.211, p = 0.028). The study concluded that the effect transfer pricing regulations have on tax performance for FIRS in Nigeria is explained by its institutional capacity to plan and human resources to implement.
Limitations: This study in scope is restricted to the FIRS in Nigeria and due to the study's cross-sectional nature, it is impossible to draw reasonable conclusions about the long-term effects of transfer pricing legislation and institutional capacity on tax performance.
Contribution to knowledge: The study contributes to recent empirical submission on transfer pricing regulations in Nigeria. Likewise, offer the boundary conditions to explain how transfer pricing regulation affect tax performance. The complementary role played by public interest theory of regulation and the dynamic capacity theory in serving as the theoretical underpinnings for this study is another contribution to knowledge.
Practical Implication: The practical implication of the findings of this study for the management of FIRS in Nigeria is that it offers strategic information which confirms the relevance of transfer pricing regulation as a critical tool to address the challenges of profit shifting by multinational companies.
Social Implication: Likewise positioned institutional capacity as the precondition for transfer pricing regulation to bear improved tax revenue. Understanding that institutional capacity mediates transfer pricing regulation-tax performance linkage suggest that with improved tax revenue, the society should benefit via increased revenue allocation to create public goods.
Originality: This study's originality stem from the fact that it is amongst the rarest study that established the effect of transfer pricing regulations on tax profit post reform and the first study within transfer pricing literature that found relevance for institutional capacity as a mediating factor.

Keywords: Federal Inland Revenue Service, Institutional Capacity, Profit Shifting, Tax Performance, Transfer Pricing Regulation

1. Introduction

Multinational companies' habitual questionable profit-shifting practices have become commonplace. Transfer pricing, the process of establishing prices for intra-firm transactions that occur across national borders, is the primary tool used to facilitate cross-border reallocation of earnings (Udin & Kasuwa, 2017) [43]. Over or undercharging for goods, services, or intangibles transferred between members of a multinational corporation's group is a common method used to shift profits and earnings from higher-to lower-tax locations. While the company benefits from a lower global tax burden, host governments lose out on a lot of tax money that could be used to create new jobs and income (Huizinga, Harry, and Laeven, 2008; Ovie, Eniola, & Lateef, 2022) [23, 33].

To ensure that transactions between related parties are priced similarly to those between independent parties in similar situations and to address the negative ripple effect of profit shifting, the international community has established transfer pricing regulations. For countries to reap the benefits of tax revenues emerging from economic operations deployed by taxable individuals in such jurisdictions, transfer pricing regulations must be in place to assure the fairness and accuracy of prices for goods and services moved between linked companies (Cooper, Fox, Loeprick, & Mohindra, 2017; Navarro, 2018) [16, 27]. This is significant because it reduces the drop in tax collection caused by profit shifting, allowing state authorities to use funds to improve people's economic and social conditions. Legislation and enforcement of transfer pricing restrictions in Nigeria could reduce abusive transfer pricing practices and boost tax collections, according to experts. Although this narrative appears conceptually logical, an empirical study is required to substantiate the position on the linkage between transfer pricing regulations and tax profit in Nigeria following reform.

Further analysis of extant literature suggests studies that examined the link between transfer pricing regulation and tax performance, especially post reform implementation in Nigeria, is sparse. A few that did focus on substantiating profit shifting and problems emanating from MNEs and stressed the need for transfer pricing mechanisms to address the menace within a developing economy context (Choi, Furusawa, & Ishikawa, 2020; Amidu, Coffie, & Acquah, 2019; Nguyen, Tham, Khatibi, & Azam, 2020; Ovie *et al*., 2022; Asongu, Uduji, & Okolo-Obasi, 2019; Shongwe, 2019) [13, 5, 28, 33, 8, 40]. This gap in literature posits that nothing concrete is known within the Nigeria context about the relevance of transfer pricing regulation as critical to tax profit. Considering how much tax revenue is lost over time when multinational corporations shift their income, it is very important to look at the benefits of transfer pricing restrictions and how they affect tax revenue productivity.

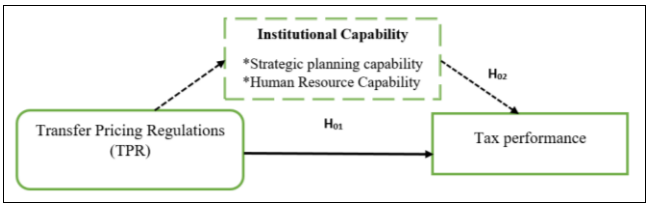
The introduction of transfer pricing reform from a change management perspective will require certain preconditions that may become critical to its success. One of the success factors is considered institutional capacity. Painter and Pierre (2005, p2) [34] consider institutional capacity as "the government agency's ability to manage its human and physical resources to deliver its objectives". It focuses on how policy implementation and delivery are organized, as well as how agencies and networks, as well as their managers, who are in charge of delivering on policy commitments, operate and perform. Such institutional capacity includes strategic planning and human resources capability. The public sector can only thrive if it is able to put policy initiatives into action efficiently. Indeed, it is generally agreed that a state's quality of government and the success of its developmental efforts are directly tied to the extent to which its public sector is competent and able to optimally align resources with actions and implement designed policies (Rothstein *et al*., 2015; Wu, Ramesh, & Howlett, 2014) [37, 29]. Everest-Phillips (2018) says that a big difference between high-performing and low-performing countries is their ability to put policies into action in a strict and effective way and keep their promises.

Owing to the relevance of State capacity in enhancing public sector performance, this study argues that such institutional capacity holds significant potential in explaining how transfer pricing regulations can influence tax performance post reforms in Nigeria. This is because having the capacity to plan strategically into the future and possessing human resource capability can help understand the reform and how to deploy it maximally. Looking through prior studies on transfer pricing regulations (Jay-Pil, Furusawa, & Ishikawa, 2020 [13]; Joel *et al*., 2016; Mohammed, Coffie, & Acquah, 2019; Navarro, 2018 [27]; Nguyen, Tham, Khatibi, & Azam, 2020 [28]; Ovie *et al*., 2022 [33]; Asongu, Uduji, & Okolo-Obasi, 2019 [8]; Shongwe, 2019 [40]) suggests that how institutional capacity mediates the link between TPR and tax performance is yet to be unraveled. Hence, limiting the relevance of institutional capacity as a boundary condition through which the link between TPR and tax performance can be explained. This is another gap in the literature that requires empirical investigation. The study addressed two research questions based on this discussion: what is the effect of transfer pricing regulation on tax performance, and does institutional capacity mediate the link between transfer pricing regulation and tax performance with reference to the federal inland revenue service in Nigeria.

2. Literature review

Theoretical Underpinning and conceptual model for this study

The study is built on the foundations of the theory of regulation and the tenets of dynamic capability theory. These theories offer a theoretical explanation as to what can happen when Nigeria's transfer pricing laws interact with its institutional capacity. According to the theory of regulation proposed by Authur Cecil Pigou in 1932, regulations are put in place when the public calls for them to address inefficient or unfair market processes. This highlights the potential benefits of changes like the Transfer Pricing regulations can bring to organizational performance. The dynamic capability theory (DCT) propounded by Teece, Pisano, and Shuen in 1990 offered strength in its capacity to explain the need for dynamic capabilities such as strategic planning and human resource capability as critical success factors for managing macro-economic challenges like the profit shifting behaviour of multinational companies through efficient deployment of transfer pricing regulations. Onamusi, Asihkia, and Makinde (2019) [32] stressed that such dynamic capabilities are critical in tapping into the growth potentials in a turbulent environment. Therefore, the complimentary role of both theories offers the basis to suggest that while transfer pricing regulations can result in positive outcomes for tax revenue generation, for that to happen, FIRS in Nigeria needs to have strategically planned for it and possess the human resource capability to deploy the transfer pricing regulation. This study hypothesizes that deploying institutional capacity significantly mediates the effect-capacity of transfer pricing regulations on tax revenue performance.



Source: Researcher's Conceptual Model, (2022)

Fig 1: Research Conceptual Model

The theoretical framework of this investigation is built on the foundations of the theory of regulation and the idea of dynamic capability. The two ideas explain, theoretically, what can happen when Nigeria's transfer pricing laws collide with its institutional strength and tax collection efforts. The DCT's strength is in its capacity to explain the relationship between tax revenue (TPR) and institutional capabilities (such as human resources and strategic planning) that might influence that relationship. However, the theory of regulation highlights the potential benefits of changes like the transfer pricing legislation on organizational output. The conceptual model is built on the tenets of the theory of regulation and the idea of dynamic capability theory. The conceptual model is a synopsis of the research into transfer pricing regulation, institutional capacity, and tax revenue performance in Nigeria. Transfer pricing regulations are the independent variables and are measured by implementation, compliance, and audit, and institutional capacity, the mediator, is measured by human resource capability and strategic planning capability. Tax revenue performance is the dependent variable. In this study, the conceptual model created a picture of how institutional capacity affects the relationship between transfer pricing regulations and tax revenue performance in Nigeria.

Transfer Pricing Regulations, Institutional Capacity, and Tax Revenue Performance

Research has shown that regulations can effectively lessen the allure of low-tax jurisdictions for passive investments and impede the movement of multinational income to low-tax countries (Ovie *et al*., 2022; Asongu, Uduji, & Okolo-Obasi, 2019; Shongwe, 2019) [33, 8, 40]. The results of similar research covering 191 U.S. multinational businesses show that income is being moved in response to changes in tax rates. That agrees with the findings of earlier research that has observed income moving from high-to low-tax jurisdictions when incentives favoring such actions are in place (Beer, De Mooij, & Liu, 2018). Moreover, the United Nations report of 2018 revealed that the magnitude of income shifting is connected to the volume of intra-firm international sales and regional disparities in corporate tax rates using financial statement disclosures under the Statement of Financial Accounting Standards (SFAS).

US Internal Revenue Service studies show that taxpayers reduce their taxable income in the US by inflating the prices of related party transactions, shifting economic activity to a low-tax or no-tax jurisdiction, and therefore lowering their US taxable income. In addition, there are significant compliance problems in the area of tax administration connected to the location of intangible assets and related transfer pricing considerations. A global corporation's affiliates typically employ intercompany activities like sales, licensing, and leasing to allocate and track their respective revenues. The research on the methods used by MNEs to minimize their tax liabilities shows that the management of an MNE group examines the tax laws and administrative requirements in different tax jurisdictions of operation to estimate its potential tax liabilities and then formulates a plan to move its profits from high-tax to low-tax regions or even tax havens. Multinational corporations are more likely to comply with tax regulations when they believe they will be subject to transfer pricing audits and transaction adjustments if they do not maintain adequate transfer pricing documentation, according to research on MNEs' methods of transfer pricing management (Aniyie & Enabulele, 2020; Eukeria, Dzomira, & Canicio, 2021) [6, 26].

On whether transfer pricing can enhance tax performance, several recent scholars have provided the possibility of the link between transfer pricing regulations and tax revenue performance (Delina-Herdian, Adi-Prawira, & Kustiawan, 2021; Joel, Kwadwo, & Sharon, 2017; Ovie *et al*., 2022 [33]). Despite the contextual differences in this extant literature on the relevance of transfer pricing regulation linked with tax performance, their findings suggest that the introduction of transfer pricing regulation will put an end to price shifting by multinational companies. Moverover, Ogidiaka *et al*. (2022) findings stressed that transfer pricing regulation will address tax evasion loopholes and ensure that multinationals pay more tax, which will help decrease the debt-revenue ratio, which has a positive ripple effect on Nigeria's economic growth.

The relevance of institutional capacity is evident in the national competitive advantage sustained by nations such as Singapore, Denmark, the Netherlands, New Zealand, and Switzerland that have embarked on administrative modernization (Van der Wal 2017a) [45]. These countries share a relatively well-trained, well-paid, autonomous, and capable public service that is responsive, committed, and provides quality service to their citizens (Van der Wal 2017b) [46]. The measures of institutional capacity employed in this study, including strategic planning capacity and human resource capability, were contextualized to fit into critical success factors that can explain the transfer pricing regulation-tax performance linkage within FIRS, Nigeria. Of what relevance are these measures to institutional performance in the extant literature? This question is considered necessary so their significance within existing literature can be confirmed in different research contexts. Likewise, this study can find an empirical discovery that provides a robust basis for its discussion findings.

Within the mid-sized organizations in the Czech and Slovak Republics, Skokan, Pawliczek, and Piszczur (2013) [41] found relevance for strategic planning. The scholars posited that organizations with well-crafted strategic plan documents performed better than those who did not have any. By implication, achieving significant institutional productivity does not happen by chance. Thus, institutions must have a conscious plan to achieve their goals. A similar study conducted by Sandada, Pooe, and Dhurup (2014) [38] equally found that strategic planning aids institutional performance. Despite conducting their studies in different geographical settings, Wijetunge and Pushpakumari (2014) [47] corroborated the findings of Karel *et al*. (2013) and Sandada *et al*. (2014) [38]. According to Wijetunge and Pushpakumari (2014) [47], mid-sized organizations in Western Sri Lanka that were moderately using strategic planning experienced significant improvement in operational performance.

Positive and statistically significant connections between strategic planning, strategy implementation, organizational excellence, and performance were confirmed by Al-Dhaafri and Alosani (2020) [3]. Alosani and Yusoff's (2020) [4] data results confirm the favorable and considerable impact of strategic planning and innovation on the performance of the Dubai Police Department. Also, Ida, Ramli, Mustafa, and Yusoff's (2015) [24] study established that strategic planning measures are essential contributors in driving better

organizations' performance. Also, George, Monster, and Walker (2019) [19] found a positive, moderate, and significant impact on the strategic planning–organizational performance relationship. Khoshtaria (2018) [25] established that comprehensive strategic planning contributes to significantly better organizational performance; however, manufacturing companies focusing on strategic planning had no significant impact on strategy implementation. Meaning, companies pay less attention to the degree of effective strategy implementation planning. Donkor (2017) pointed out that most of the family businesses in Ghana have attained moderate performance levels. It is further revealed that strategic planning activities are not widely pursued among family firms in Ghana. However, this study's findings showed a significant positive relationship between strategic planning and family firm performance.

According to Auka and Langat (2016) [9], strategic planning has a major impact on business outcomes. Strategic planning was found to positively correlate with SMME financial success by Gomera, Chinyamurindi, and Mishi (2018). In addition, a positive relationship was shown between financial results and the formulation, implementation, evaluation, and control stages of strategic planning. Results from the study conducted by Abdul-Aziz (2019) [1] show that strategic performance is improved when strategic planning is put into action. According to Adetayo's (2018) research, strategic planning is positively correlated with business success in the modern business world. The results show that business owners and entrepreneurs need to plan strategically to stay in business in today's tough economy.

All organizations require the use of humans to acquire their services, develop their innate abilities, motivate them to perform at a high level, and ensure consistency of commitment to the organization's overall objectives. All of these are critical to the achievement of organizational goals as identified by scholars (Banerjee, 2018; Chukwuka, 2016; Chukwuka & Nwakoby, 2018) [10, 14, 15]. In an empirical study of the automotive industry in Malaysia, Rahim and Zainuddin (2019) [36] found that human resources capability has a significant positive effect on competitive advantage. Thus, enhanced human resource competencies will improve the firm's competitive advantage, which will significantly impact its performance. The implication of these empirical studies' findings is that effective planning and deployment of transfer pricing regulation planning and possessing capable human resources to activate the implementation of the transfer pricing regulation are critical success factors in how transfer pricing regulations enhance improvement in tax revenue performance.

3. Methods

Design, Context, Instrument, Data Collection, and Estimation Technique

The study adopted a quantitative method with an emphasis on cross-sectional survey research design, given its ability to assist with data collection at a point in time to achieve the objective of the study (Onamusi & Ayo, 2021). The target population was the 612 people who work in the International Tax Department at FIRS in Nigeria. Because the sample size was small, total enumeration was used.

This study's instrument of data collection was a structured questionnaire, which was self-developed to address the peculiarities of the issue under investigation. Questionnaires are helpful because they make it easier to get answers based on how people feel and what they think (Onamusi, 2019). They are also good for getting data from a large number of people quickly on timely topics, and they improve the quality of quantitative data analysis. According to the existing literature, the Likert-type scale was used for the response alternatives in this study's questionnaire, which is compatible with (Umukoro, Onamusi, Egwakhe, & Folorunso, 2022) [44]. The numbers on this scale represent ordinal intervals, from four to one. On the survey's Likert scale, all of the answers were, respectively, strongly agreed (SA) = 6, Agreed (A) = 5, partially agreed (PA) = 4, partially disagreed (PD) = 3, Disagreed = 2, and strongly disagreed (SD) = 1. There are four parts to the questionnaire: Fourteen (14) items dealt with tax income in Section C, whereas four (4) items dealt with demographic characteristics in Section A. There were thirteen (13) elements in Section D that dealt with the institutional capacity.

Transfer pricing restrictions and tax performance in Nigeria were analysed using Partial Least Square-Structural Equation Modelling (PLS-SEM) to investigate the mediating role of institutional capability. The PLS-SEM via SmartPLS version 3.3.9 was used given that it offers a more precise and thorough analysis as against the conduct same analysis using SPSS (Asikhia, Adewole, Onamusi, & Makinde, 2022) [7].

4. Result and discussion

The study conducted validity and reliability tests to ensure that the instrument was valid and reliable. The SmartPLS version 3.3.9 offers analysis of structural models that presents statistics for construct validity and reliability. For construct validity, emphasis was on convergent (AVE) and discriminant validity (HTMT). Therefore, evidence of construct validity for each measured variable was supplied by an AVE greater than 0.5 and by a discriminate validity value for the entire construct below 0.9 on the Heterotrait-Monotrait (HTMT) criterion. Discriminant validity and Average Variance Explained (AVE) values showed that all of the variables were valid indicators of the construct being studied. The construct validity of these questionnaire items was summarized for this study in Tables 1 and 2. The Cronbach's alpha reliability statistic suggests that the instrument is reliable.

Table 1: Summary of Construct Validity and Reliability Test

Variable	Composite Reliability	Cronbach's alpha coefficient	AVE	Remark
Audit	0.679	0.655	0.61	Reliable
Compliance	0.809	0.644	0.60	Reliable
Human resource capability	0.859	0.790	0.60	Reliable
Implementation	0.870	0.813	0.73	Reliable
Strategic planning	0.960	0.953	0.50	Reliable
Tax profit post reform	0.711	0.647	0.57	Remark

Source: Computed from Pilot study, (2022)

The HTMT criterion, which Henseler, Ringle, and Sarstedt say is a reliable method for establishing discriminant validity by gauging average correlations between indicators and constructs, is one example Henseler *et al*. (2015) [22]. Where the HTMT values for all the reflective constructs are below 0.90, a researcher proposed that discriminant validity has been established between the reflective constructs. Table 2 shows the HTMT criterion for this study, which was calculated with the SmartPLS statistical platform, version 3.3.9.

Table 2: Discriminant Validity using Heterotrait-Monotrait Ratio (HTMT)

Construct	AU	CM	HRC	IM	SPC	TPS	TPP
Audit							
Compliance	0.895						
Human resource capability	0.765	0.464					
Implementation	0.484	0.688	0.982				
Strategic planning capability	0.606	0.809	0.570	0.825			
Tax profit post reform	0.793	0.672	0.576	0.650	0.545		

Source: Computed from Pilot study, (2022)

All of the reflective constructs in table 2 above have HTMT values below 9.00, which is consistent with the threshold for proving discriminant validity given by Henseler *et al*. (2015) [22], Hair *et al*. (2018) [21] and was corroborated by Asikhia *et al*. (2022) [7]. Both convergent validity (as measured by AVE) and discriminant validity (as measured by the HTMT criterion) have been emphasized by scholars as crucial indicators of construct validity (Asikhia *et al*., 2022) [7].

Table 3 presents the demographic and personal profile of respondents used for this study. From the table, profile of gender indicated that 305 respondents representing 61.9% were male while 188 respondents representing 38.1% were female, indicating that most of the respondents were male. Demographic and personal profile of respondents as shown in table 3 by age revealed that 14 respondents representing 2.8% were between the ages of 20-25 years, 86 respondents representing 17.4% were between 26-30 years, 294 respondents representing 59.6% were between 31-40 years, 99 respondents representing 20.1% were between 41 years and above, indicating that most of the respondents were between 31-40years. Meanwhile, 3 respondents representing 0.6% had OND/NCE, 55 respondents representing 11.2% had HND, 276 respondents representing 56.0% had BSc, 141 respondents representing 28.6% had Masters/MBA, and 18 respondents representing 3.7% had PhD. Also, 169 respondents representing 34.3% had 5-10years work experience, 119 respondents representing 24.1% had 11-15 years, 146 respondents representing 20.6% had 16-20 years, and 59 respondents representing 12.0% had 21 years and above.

Table 3: Demographic Characteristic of Respondents

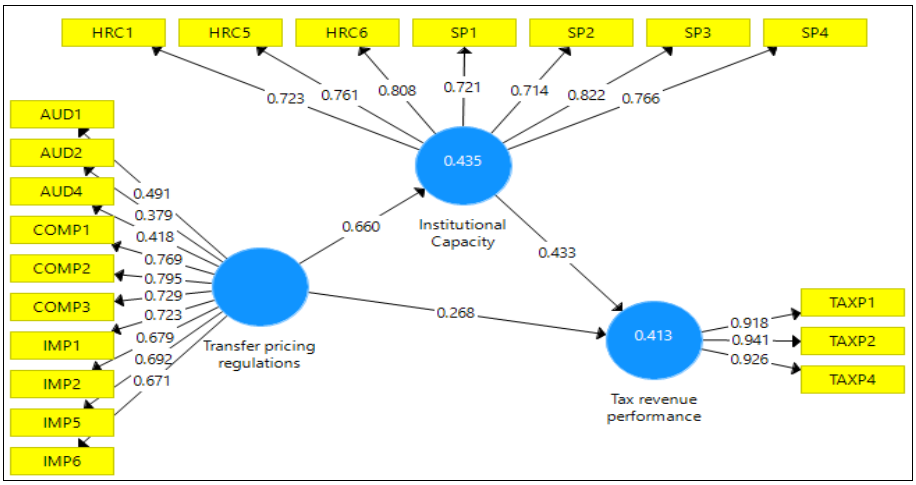
Variables	Category	Frequency	Percentage
Gender	Male	305	61.9%
	Female	188	38.1%
Age	20-25years	14	2.8%
	26-30years	86	17.4%
	31-40years	294	59.6%
	41 and above	99	20.1%
Highest level of education	OND/NCE	3	0.6%
	HND	55	11.2%
	BSc	276	56.0%
	Masters/MBA	141	28.6%
	PhD	18	3.7%
Years of work experience	5-10years	169	34.3%
	11-15years	119	24.1%
	16-20years	146	29.6%
	21years and above	59	12.0%

Source: Field Survey Results (2022)

Hypothesis Testing

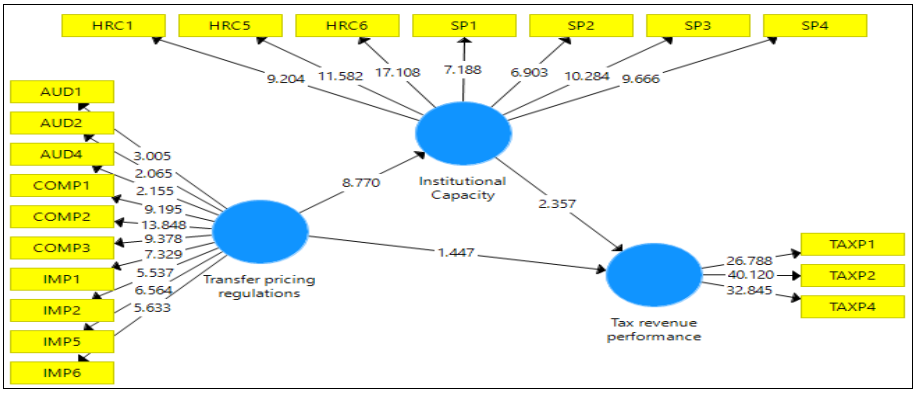
Institutional capacity has no significant mediating effect on the association between transfer pricing regulations and tax revenue performance in FIRS, Nigeria.

The SmartPLS 3.3.9 statistical platform was used to implement PLS-Structural Equation Modelling (PLS-SEM) in order to test this hypothesis. Transfer pricing regulations are the independent variable, tax revenue performance is the dependent variable, and institutional capacity is the mediating variable. The analysis relies on information from 493 FIRS employees in Nigeria. Three models (Fig 2, 3, and 4) and a table summarizing the PLS-SEM results are shown below (see table 4). The measurement model is depicted in Fig 2, the structural model is depicted in Fig 3, both of which corroborate the path analysis's importance, and Q2 in Fig 4 corroborate the structural model's predictive relevance (t value above 1.96 and Q2 above zero confirm a statistically significant effect and that the structural model specified is relevance). The models used in the study include an outer model that shows the factor loadings (correlation) of each item in relation to the latent variable and an inner model called the structural model (predictive model) that describes the relationships between the study's independent (transfer pricing regulations) variable(s), mediator (institutional capacity), and dependent (tax revenue performance) variable. The data presented in Fig 2, 3, and 4 is tabulated for your convenience in Table 4.



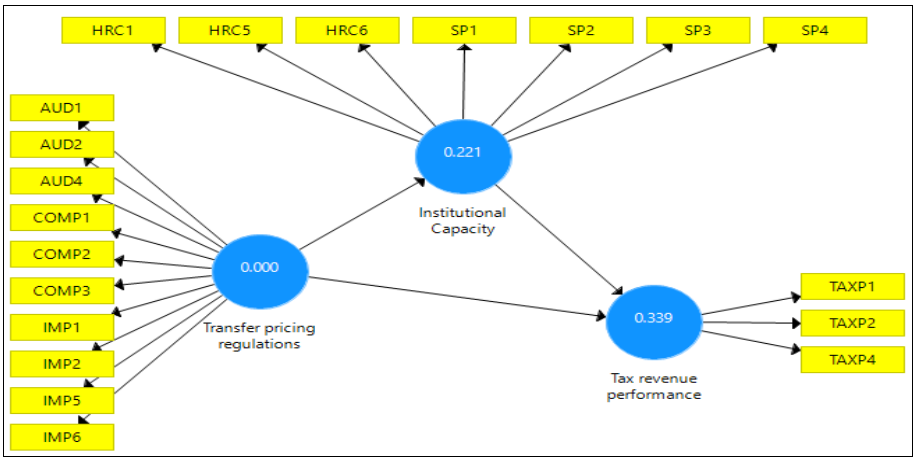
Source: SmartPLS V3.3.9

Fig 2: Measurement Model for the mediating effect



Source: SmartPLS V3.3.9

Fig 3: Structural model for the mediating effect



Source: SmartPLS V3.3.9

Fig 4: Q^2 Statistics for model relevance

Table 4: PLS-SEM for the mediating effect of institutional capacity on the interaction between Transfer pricing regulations and Tax revenue performance in FIRS, Nigeria

Path Coefficient n=493	Original Sample(O)	Sample Mean(M)	T-Statistics	P-Values	Q^2
Model [1,2,3]					
Transfer pricing regulations → Tax revenue performance	0.286	0.285	1.447	0.148	0.339
Transfer pricing regulations → Institutional capacity	0.660	0.693	8.770	0.000	0.221
Institutional capacity → Tax revenue performance	0.433	0.430	2.357	0.019	
Specific Indirect Effect					
TPR → IC → TRP	0.286	0.294	2.211	0.028	

Source: Researcher's Results via SmartPLS V3.3.9 (2022)
Note: TPR= transfer pricing regulations; IC= institutional capacity; TRP= tax revenue performance

Fig 2, 3, and 4 and Table 4 present the results of PLS-SEM analysis for the mediating effect of institutional capacity on the interaction between transfer pricing regulations and tax revenue performance in FIRS, Nigeria. To establish the mediating effect in PLS-SEM, via the SmartPLS, offers the result for the specific indirect effect examined. The specific indirect effects from 'Transfer pricing regulations' → 'Institutional capacity' → 'Tax revenue performance' must be statistically significant. If there is a full mediation, then the direct impact of transfer pricing regulations on tax revenue performance in FIRS, Nigeria from the path analysis will be statistically insignificant. However, if both the indirect and direct effects are significant from the path analysis, then a partial mediation is established.

Transfer pricing regulations have a specific indirect effect on institutional capacity tax performance (β= 0.286, t = 2.211, p = 0.028). Hence, since the specific indirect effect (transfer pricing regulations institutional capacity operation performance) is significant across all the paths (see table 1), then the study provides evidence to establish a mediating effect. Because the direct effect of transfer pricing regulations on tax revenue performance is insignificant (β= 0.286, t = 1.447, p = 0.148), but the specific indirect path 'Transfer pricing regulations institutional capacity operation performance' is significant, a full mediating effect is established. In other words, the result posits that the impact transfer pricing regulations have on tax revenue performance is as a result of the institutional capacity in place in FIRS, Nigeria. More specifically, the effect transfer pricing regulations have on tax revenue performance in FIRS is explained through deploying institutional capacity in strategic planning capability and human resource capability as a whole.

Furthermore, the PLS-SEM provides the result of the specific indirect effect to reinforce the threshold position of the mediation analysis. The result of the specific indirect effect, as shown in Table 4, shows a path analysis from transfer pricing regulations to institutional capacity to operation performance (β= 0.286, t = 2.211, p = 0.028), demonstrating that the indirect path is significant overall. Based on the specific indirect impact (β= 0.286, t = 2.211, p = 0.028) and Q2 value (0.339, 0.221), this study concludes that institutional capacity mediates the interaction between transfer pricing regulations and tax revenue performance in FIRS, Nigeria.

This study was designed to determine the mediating role of institutional capacity in the interaction between transfer pricing regulation and tax performance in Nigeria. The finding suggests that institutional capacity fully mediates the interaction between transfer pricing regulations and the tax revenue performance of FIRS, Nigeria. The findings corroborated the findings of earlier scholars (Delina-Herdian, Adi-Prawira, & Kustiawan, 2021; Gunawan, 2021; Barker, Asare, & Brickman, 2017; Ovie *et al*., 2022 [33]) on the need for government tax administrators to introduce transfer pricing regulation to curb price shifting by multinational companies. Ovie *et al*. (2022) [33] findings stressed that transfer pricing regulation will address tax evasion loopholes and ensure that multinationals pay more tax, which will help decrease the debt-revenue ratio, which has a positive ripple effect on Nigeria's economic growth. The findings, which posit that institutional capacity mediates the interaction between transfer pricing regulations and tax performance, is corroborated by the tenets of the contingency theory of fit-as-a-mediator. According to the interactionist perspective, when a variable explains a significant change in the interaction between a predictor and an outcome variable, then a mediation effect is established. The result of the mediating effect aligns with the above narrative and suggests that institutional capacity holds significant relevance for how FIRS transfer pricing regulation explains significant variation in tax performance.

5. Conclusion and recommendations

This study on the basis of its findings which found support in prior studies and in theories offers the opportunity to conclude that while transfer pricing regulation affect tax performance, the effect is explained by the introduction of institutional capacity of FIRS in Nigeria. Hence, management of FIRS needs to continue re-evaluating their strategic planning capability and continue to develop their human resource capability through constant training and upskilling. This is critical as they possess the capacity to explain the positive influence of transfer pricing regulations on tax revenue performance for FIRS, Nigeria.

The practical implication of the findings of this study for the management of FIRS in Nigeria is that it offers strategic information which confirms the relevance of transfer pricing regulation as a critical tool to address the challenges of profit shifting by multinational companies. Through ensuring that activities regarding transfer pricing regulation are given significant thought today with a continuous plan for its future relevance, and by recruiting and developing human resources that are capable of operationalizing the transfer pricing regulations to the letter, it is critical in ensuring that transfer pricing regulations affect tax performance in Nigeria.

The results of this study also made important conceptual, theoretical, and empirical contributions to our knowledge in the following ways: Specifically, this study makes substantial contributions to our conceptual understanding in a number of ways, as evidenced by the literature evaluation. The research found and filled in gaps in the existing literature on transfer pricing rules, institutional strength, and tax collection efficiency in Nigeria's Federal Inland Revenue Service (FIRS). The theoretical foundations for this study came from the public interest theory of regulation and the dynamic capacities theory, both of which are consistent with the study's findings. These theoretical frameworks were chosen to serve as the basis for this research because of the insights they provide into the research questions. Second, the dynamic capability theory suggests that within a turbulent macro-environment, it is imperative for firms desiring to achieve superior performance to possess capabilities that are renewable and can be used to adapt to the evolving business environment, both of which are explained by the public interest theory of regulation. The theoretical foundations for this study came from the public interest theory of regulation and the dynamic capacities theory, both of which are consistent with the study's findings. These theoretical frameworks were chosen to serve as the basis for this research because of the insights they provide into the research questions. Second, the dynamic capability theory suggests that within a turbulent macro-environment, it is imperative for firms desiring to achieve superior performance to possess capabilities that are renewable and can be used to adapt to the evolving business environment, both of which are explained by the public

interest theory of regulation and the dynamic capability theory.

This study's findings are consistent with the public interest theory of regulation and the dynamic capacities theory. When taken together, the two theories provide a theoretical explanation for the dynamic between transfer pricing legislation, institutional capacity, and tax revenue performance. In order for the government and its agencies to generate the economic well-being that its citizens demand in the face of changing environmental conditions, state agency capability must be dynamic rather than static. Tax revenue performance in FIRS, Nigeria was analyzed to see how transfer pricing regulation impacted their bottom line. This study's empirical findings provide a useful addition to the current literature and empirical findings on transfer pricing legislation, institutional capacity, and tax revenue performance in Nigeria's public sector, and they can also be used as a reference for future studies in the field. In particular, this research found that transfer pricing regulations' effect of tax performance is achieved through the institutional capacity of the FIRS in Nigeria.

There are caveats to this study that need to be recognized in order to create opportunities for additional research. More specifically, FIRS is examined because it is a government organization whose sole responsibility is to collect and administer taxes. Therefore, the scope of this research is restricted to the FIRS in Nigeria. Due to the study's cross-sectional nature, it is impossible to draw any conclusions about the long-term effects of transfer pricing legislation and institutional capacity on the dependent variable (tax revenue performance). In spite of this limitation, the study is nonetheless valid because its overarching goal—which is to analyze how FIRS's transfer pricing restrictions affect tax revenue performance—requires a snapshot in time's worth of information. By doing so, the study highlighting the cross-sectional design's best features.

Future research is encouraged and suggested by the study's limitations. Findings from this study may be generalized further in future research if other revenue collection agencies, such as the Nigeria Customs Service, were included. Potentially useful for future research is the longitudinal study design, which can help explain the relationships observed between different factors over time. The sub-variables of institutional capacity in this study are not exhaustive; hence, future studies should incorporate other institutional capacity like inter-agency networking capability, collaboration capability, and decision-making capability to see their first-order and or second-order effect on tax revenue performance in FIRS. Lastly, future studies may consider incorporating other intervening variables like government policy, Omoluabi leadership for the Yoruba world view, management creativity, and agile information management to investigate the effect of transfer pricing regulations on institutional performance in different research contexts.

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