CORPORATE TAX PLANNING AND PROFITABILITY OF CONSUMER GOODS COMPANIES IN NIGERIA

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ABSTRACT

The study investigated the impact of corporate tax planning on profitability of consumer goods companies in Nigeria. The data for the study were collected from annual report and accounts of the sampled companies in Nigeria for the period 2007 -2019. The variables used were corporate tax planning (proxies by thin capitalization & capital intensity) and profitability (proxies by return on capital employed. Finding of the study revealed that thin capitalization has negative and significant effect while capital intensity has positive and significant effect on profitability of consumer goods companies in Nigeria. The study concluded that thin capitalization has negatively and significantly affected the return on capital employed and capital intensity has positively and significantly affected the return on capital employed (Profitability) of consumer goods companies in Nigeria. The study recommended that significant amount of CI and least amount of TC should be maintained in order to achieve a positive and significant return on capital employed (Profitability) of consumer goods companies in Nigeria.

Keywords; corporate tax planning, thin capitalization, capital intensity and profitability

INTRODUCTION

1.1 Background to the Study

Companies globally are being charged varied tax rate as in Hungary is 9% while Switzerland charge 8.5% plus a cantonal tax, in Germany it accounts for 15%, whereas in Poland and the Czech Republic the tax rate comprises 19%, in Slovakia the figure is as high as 22% (Bondar et al., 2021). The Ugandan government levies a 30 percent corporate income tax after deducting all allowable tax-deductible business expenses; in South Africa, the government imposes a 15 percent corporate income tax on a company's yearly profits that are repatriated. the tax rates for large corporate entities in Nigeria is 30% and 2% tertiary education tax, there was also an introduction of 0.005 percent on company's net profit as trust fund established under the Nigerian Police Trust Fund Act, 2019 (Elias, 2021). Therefore, it is clear that the corporate tax in Nigeria takes close to one-third of companies' profit, and that the total tax obligation is reasonably high, which makes tax obligation of corporate organisations a crucial matter to be looked into, as entities may be negatively affected in one way or another, and may need to skillfully and legally reduce the tax through tax planning. Making strategies to reduce the tax burden of companies without violating rules and regulations of the tax policy and conditions imposed by the tax authority can be introduced as corporate tax planning (Dharmarathna, 2020). Corporate tax planning varied among countries of the globe, among the employees, the nature and type of the business, opportunity, flexibility of the tax law as well as the strategies employed in reducing the tax. Corporations engage in international tax planning in a variety of ways, including by relocating valuable intangible assets to a low-tax jurisdiction, accumulating cash holdings in foreign subsidiaries, and manipulating transfer pricing in intra-firm transactions (Cooper & Nguyen, 2021). In the context of Vietnam, an emerging country, state-owned firms are normally in advantageous position. Being state-owned, is an important factor that influences tax planning decisions (Vu & Le, 2021). In Kenya, all companies are required by law to file their tax annually, while companies listed at Nairobi stock exchange are taxed differently, each firm has its own tax management practices and policies (Kariuki, 2017).

Corporate tax planning points or strategies in Nigeria include the selection of an appropriate business type, location, date of commencement and termination, accounting date, financial structure, method of acquiring non-current assets, and method of compensating capital providers (Nwaobia & Jayeoba, 2016). Financial arrangements, capital structure using internal debt,

economic activity location, moving valuable intangible assets to a low tax jurisdiction, and corporate investment in fixed assets are all examples of tax planning tactics. High tax liabilities result from taxpayers' inability to plan for taxes, which in turn might reduce a company's profitability (Amarudina et al., 2019). A company's viability and growth depend, in part, on its capacity to turn a profit.

When a company is profitable, it means that its operations are efficient enough to generate enough revenue to cover all of its costs (including taxes) and still leave some money over to invest in growing the business (Abiola & Lateef, 2020). Both the growth and health of an economy and the performance of individual businesses depend on their ability to turn a profit (Batra, 2016). Profitability is crucial for businesses, but it is always impacted by things like expenses and capital outlays (Akintoye et al., 2020).

As a result, the amount of profit a company reports for tax purposes might vary significantly depending on its capitalization strategy (Kayode & Folajinmi, 2020). Interest paid by a company using debt capital (thin capitalization) is an allowable business expense. More debt means more interest expense, which reduces a company's after-tax earnings (Akabom & Ejabu, 2018). Company's investment in fixed assets (capital intensity) enable the companies to enjoy related incentives and allowances which are by law tax deductible and by implication tend to reduce companies' tax burden and increase the desired profit. The capital allowances tend to have positive impact on corporate entity's profitability (Onyeka-iheme, 2021).

Hence, it is exactly in this context that the study aims to assess the "impact of corporate tax planning strategies and profitability of consumer goods companies in Nigeria. Investigating if corporate tax planning strategies influenced profitability of consumer goods companies in Nigeria can provide new insights into the discussion in Nigerian context and practicable policy recommendation can be offered.

1.2 Statement of the Problem

Excessive taxation attributable to an inadequate tax planning, Food and beverage division of the economy business climate is deteriorating (Festus, 2022). Should the companies continue to collapse for not putting effective tax planning in place, stakeholders can be affected in different ways; shareholders can lose practically part of their investment, citizens will lose their jobs, government will lose tax and the society will lose corporate social responsibility.

There is still no conclusive empirical evidence in the literature about how CTP influences corporate profitability. This can be evident from the study of (Alduneibat et al., 2017; Iriyadi et al., 2019; Kariuki, 2017; Nurdayadi, 2019; Olabisi et al., 2019; Olurakinse & Mamidu, 2021; Richard et al., 2019; Wada, 2021) who found positive and significant impact between CTP and profitability. The study of (Kayode & Folajinmi, 2020; Oeta, Kiai, & Muchiri, 2019)) found positive insignificantly impact between CTP and profitability. The inconsistency in findings becomes a motivation for this study.

Company with more debt capital (thin capitalisation) can likely get more tax profit through the reduction interest expense deductible from profit before charging the tax. Also companies that engaged in fixed asset enjoys some capital allowance (capital intensity) which is tax deductible expenses.

The variables are typically analysed using regression methods without taking into account the compromise between the random effect approach's efficiency and the fixed effect approach's consistency.Multiple regression techniques using panel data as well as fixed and random effect model would be suitable and would be employed because of the panel character of the data which combines time series as well as cross-sectional attributes.

Furthermore, most of the studies on CTP in Nigeria concentrate on banks, paying little or no attention to non-financial companies despite the important role they play in the economic development of the country, resulting to the dearth of studies on CTP and profitability.

1.3 Research Questions

This study raises and intends to provide answers to the under listed questions:

i. What is the effect of thin capitalization on the profitability of consumer goods companies in Nigeria?
ii. What is the relationship between capital intensity and profitability of consumer goods companies in Nigeria?

1.4 Objectives of the Study

i. To examine the relationship between thin capitalization and profitability of consumer goods companies in Nigeria;
ii. To ascertain the relationship between the capital intensity and profitability of consumer goods companies in Nigeria;

1.5 Scope of the Study

This study will focus on corporate tax planning strategies on profitability of consumer goods companies in Nigeria: It will cover a period of fourteen (15) years from 2007 to 2019. The period 2007 is justified because corporate tax in Nigeria was last reviewed in 2007. However, Dua, Ellingrud, Mahajan and Silberg (2020) uncovered that change in customers' behaviors especially through physical distancing and mandated operational restrictions during the pandemic have highly affected companies. Industries mostly affected by Covid-19 over the period January 2, 2020 to January 15, 2022, included: airlines; Automobiles; Energy Equipment and services; Hotels, Restaurants and leisure; and, Specialty retail. Based on this therefore, the study will limit itself to 2019 to avoid a possible post corona impact which is expected to be manifesting on activities of the company.

According to Political Cost Theory, however, large corporations use their clout in both the marketplace and the political sphere to reduce their tax liability. Non-financial companies are responsible for a large share of the economic activity in most nations and account for over 60% of their total output (James & Patrick, 2021).This research shall therefore, be restricted on larger companies, listed non-financial companies in Nigeria as at December 2019. The dependent variable shall be profitability to be proxies by return on capital employed and the independent variable shall be corporate tax planning strategies to be proxies by thin capitalization and capital intensity.

1.6 Significance of the Study

The results of this research are expected to add to the growing body of empirical literature on the topic of tax planning and profitability in developing countries. The study's findings would be useful both as a reference for future researchers and as required reading for any students interested in this topic. Users of accounting information in the sector which include the management, shareholders, investors, financial analyst, and other stakeholders will find this research resourceful in that it will help them in taking various decisions and judgment such as investment and financing.

The professional accounting bodies particularly will find this study resourceful as they will use the result in improving its training programs. Besides that, there exist little or no studies on moderating impact of managerial ownership on the relationship between corporate tax planning strategies and

profitability of non-financial companies in Nigeria. This study will therefore, extend the frontiers of knowledge.

2. LITERATURE REVIEW

2.1 Introduction

This chapter is divided into three sections, the conceptual framework which reviews, the empirical review and the theoretical framework reviews theories relevant to the study and the theory underpinning the study is adopted.

2.2 Conceptual Review

This section reviews the concept of corporate tax planning, capital intensity and thin capitalisation as follows:

2.2.1 Concept of Tax planning

Since tax planning aims to reduce expenses and boost after-tax earnings, it is typically seen as being in shareholders' best interests. However, there isn't a single, globally agreed-upon definition of corporate tax planning that prevails in all contexts and nations. Depending on their particular perspectives, different people define it in various ways.

Tax planning is the capacity of an organisation to legally decrease its tax liabilities by utilising various tax system loopholes, according to Adejumo and Sanyaolu (2020). Tax planning is a way to properly complete tax responsibilities (i.e., without breaking the law), but the amount of tax paid can be minimised to achieve the anticipated profit and liquidity (Bramasta & Budiasih, 2021). Tax planning is the process of setting up a taxpayer's business or a business entity in a way that it can take advantage of the various tax regulations' loopholes (loopholes) that are available to it in order to pay the least amount of tax possible (Herwati & Kumala, 2021). Tax planning refers to the legal techniques used by businesses to ensure efficient management of their revenue and expenses in order to pay as little tax as possible (Olurankinse & Mamidu, 2021). Febriyanti and Zulfikar (2022) state that there are two theoretical perspectives on tax planning: the traditional theoretical perspective, which views tax planning as an activity to transfer wealth from the state to shareholders, and the agency theory perspective, which defines tax planning as an action taken by taxpayers to minimise tax obligations that will be paid by exploiting flaws in tax rules that are clearly regulated by law. Therefore, in this study, tax planning is the legitimate method of lowering or minimising tax payments.

2.2.2 Concept of Thin Capitalization

Various academics have various opinions on thin capitalisation. This includes Farrar and Mawani's (2008) claim that a corporation has insufficient capital if its capital structure contains a higher proportion of debt than equity. Thin capitalisation is the term for when a corporation is financed with a disproportionately large amount of debt in comparison to equity (Pratama, 2017). According to Fagbemi, Olaniyi, and Ogundipe (2019), thin capitalization is a method adopted by businesses to arrange their financials by having a high debt-to-equity ratio. Highly leveraged or highly geared are other terms used to describe thinly capitalised firms. The amount of profit a firm reports for tax reasons will frequently be significantly impacted by the manner it is capitalised (Kayode & Folajinmi, 2020). Therefore, having more debt as a company's capital composition results in thin capitalization.

2.2.3 Concept of Capital intensity

Different academics take a different stance on capital intensity. The intensity of fixed assets measures how much a company's fixed assets make up of its overall assets (Siregar & Widyawati, 2016). It has to do with how much money businesses put into things like machinery and stock. Capital intensity can be estimated using the capital to labour ratio, which can be derived, for example, from the locations of capital and labour isoquants. The capital intensity of a manufacturing process or an economy is the ratio of fixed or real capital to other elements of production, especially labour (Knesl, 2018). Therefore, capital intensity is an investment in fixed assets for capital allowance purposes that lowers the taxed liability and increases the profitability of the business.

2.2.3 Concept of Profitability

Profitability is a useful indicator of how firms will function in the future (Nguyen, 2020). According to Sunarto et al., (2021), "profitability" is a term used to describe a company's ability to generate a profit from asset management. It is also referred to as "Return on Net Operating Assets." The relevant method of analysis is financial ratios. Management efficiency can be gauged by profitability ratios, which consider both sales and investment returns (Bramasta & Budiasih, 2021). One metric used to evaluate a business' health is its profit margin. A company's profit potential is measured by a ratio known as profitability. Management effectiveness can be measured with this ratio (Sari et al., 2021).

2.3 Empirical Review

According to a study of the literature, the majority of empirical research on corporate tax planning have employed the following metrics to measure company profitability and financial performance:

2.3.1 Thin Capitalisation and Profitability

Thin capitalization is a revenue-stripping tactic, however Akabom and Ejabu (2018) found that it has an impact on the performance of multinational corporations in Nigeria. The study's data came from 17 sampled multinational companies quoted on on NSE from 2012 to 2016. Utilising multiple regression analysis, the data was examined. The time period chosen is too brief to assess how thin capitalization affects profitability.

In a similar line, debt financing has been shown by Sohail and Ulfat (2019) to have a negative and significant impact on firm performance. The study looked at the effects of various debt financing on business performance in 14 different Pakistani industries. For a nine-year period (2006 to 2014), secondary data were gathered from the Pakistan Stock Exchange in 14 different industries. Because the economies of the two nations are very different, a research comparable to the one that was completed in Pakistan might also be done in Nigeria.

However, Merlo et al., (2020) investigated and discovered that MNCs' site decisions were adversely impacted by tougher thin capitalization restrictions. the impact of thin capitalization rules on the location of multinational firms' overseas subsidiaries. The study uses information on nearly all recent overseas investments by German MNCs to offer novel and intriguing insights on the impact of thin capitalisation regulations on the location decisions of multinational corporations. Ngo et al., (2020) also find that debt has a statistically significant adverse effect on the profitability of businesses. The correlation between the debt ratio and the profitability of a company is stronger in a non-linear (concave) relationship. The research focused on non-financial enterprises trading on the Vietnam Stock Exchange. This study uses panel data consisting of 118 non-financial listed enterprises covering the years 2009-2017. The Generalised Method of Moments (GMM) is used to address econometric issues and improve the precision of regression coefficients. Such research can be conducted in Nigeria.

But according to Akintoye et al., (2020), thin capitalisation has a negligible impact on TP's Return on Assets (ROA). examined from 2008 to 2017 the impact of Tax Planning (TP) Strategies on the profitability of manufacturing enterprises in Nigeria. Thin capitalisation, capital intensity, and R&D are the variables employed, with Return on Assets serving as the dependent variable. Ex ante research methodology. The only profitability proxy employed in the study was ROA. Similar research can be done using several profitability proxies.

Eneisik and Moses (2021) discovered in a different study that Nigerian listed banks' return on equity is negatively and insignificantly impacted by thin capitalization. Twelve banks were chosen as a sample size for the investigation using judgemental selection approaches from 2006–2019. The study used descriptive statistics for its univariate analysis, and it evaluated its hypotheses with ordinary least square regression utilising E-view 10's econometric statistical programme. The variables' heterogeneity is denied by the use of ordinary least squares regression. The same study can be carried out utilising different data analysis methods.

Thin capitalization has a positive but negligible correlation with MNCs' financial performance, according to Otuya and Omoye (2021) for the years 2014 to 2018. Regression, correlation, and descriptive analytics are the analytical methods. The time period chosen was insufficiently brief to demonstrate the effect of thin capitalization on profitability.

2.3.2 Capital Intensity and Profitability

Simeon et al., (2019) found a positive, insignificant connection between capital intensity and financial performance. The nine manufacturing companies that are listed on the NSE were the study's target population. Panel data and SPSS version 23 software were used for the descriptive and inferential statistics. From 2010 to 2017, information was gathered from manufacturing companies listed on the Nairobi Securities Exchange. The methodology is suitable, and the outcomes would outperform those from alternative methodologies. However, the analysis only includes manufacturing firms. Other industries can be covered in a study of a similar nature.

Additionally, Oeta et al. (2019) found a positive but negligible correlation between capital intensity and financial success in enterprises. The variables considered were financial performance (Return on Assets and Return on Equity) dependent variables and tax planning independent factors. The audited financial statement was used to gather secondary information. We used both descriptive and inferential statistics. Only descriptive and inferential data analysis methods were used to analyse the data. The same study can be carried out utilising other data analysis methods.

Similar to this, Astrinur et al., (2020) found that capital intensity significantly and favourably affects tax management. 87 sample firms from the mining, real estate, and agriculture sectors were chosen for the data research, and secondary data were gathered from their financial statements. These companies were listed on the Indonesia Stock Exchange in 2018. Multiple regression test was employed as the data analysis technique. Only enterprises in the agriculture, mining, and real estate sectors are included in the study. Other industries can be covered in a study of a similar nature.

Capital intensity was found to be unaffected by TP by Akintoye et al. (2020). From 2008 to 2017, researchers examined the impact of tax planning (TP) tactics on the bottom lines of Nigerian manufacturers. The study's data came from the sample companies' most recent annual reports. The methodology utilised in this study was retrospective. The researchers relied solely on ROA to measure profitability. Several proxies for profitability allow for similar analysis.

Similarly, Ifoastri et al., (2020) found that working capital management and capital intensity both have an effect on profitability. Capital intensity also has a significant negative impact on profitability. The study was done specifically on Indonesia's food and beverage sub-sector of the consumer goods industry. The information was gathered from the sampled companies' accounts that are listed on the Indonesia Stock Exchange. Utilising multiple linear regression analysis, the data were examined. The study only looked at the consumer goods sector. Other industries can be covered in a study of a similar nature.

But as Eneisik and Moses (2021) discovered, capital intensity had a negligible impact on the return on equity of Nigerian quoted banks. Twelve banks were chosen as a sample size for the investigation using judgmental selection approaches from 2006–2019. The study used descriptive statistics for its univariate analysis, and it evaluated its hypotheses with ordinary least square regression utilising E-view 10's econometric statistical programme. The study's scope is strictly descriptive and univariate. The same study can be carried out with various analytical techniques.

2.4 Theoretical Framework

Two ideas are discovered to be pertinent when analysing the function of corporate tax planning methods and the profitability of consumer products companies in Nigeria. These are Hoffman's Tax Planning Theory and the Agency Theory.

2.4.1 Agency Theory

According to Samaila (2014), agency theory was first proposed by Alchian and Demsetz (1972), and was then expanded by Jensen and Meckling in 1976. Agency theory describes the dynamics between principals and agents, such as shareholders and firm leaders or managers. In this view, the shareholders (who are also the company's owners or principals) hire the men to execute the work. Managers, as the shareholders' representatives, are expected to act in a manner that benefits the shareholders, according to this notion. Folajinmi and Kayode (2020). According to the principle, a tax manager should look into all tax law loopholes and opportunities in order to reduce tax burden and liabilities and promote the interests of shareholders. According to these hypotheses, if the manager implements and maintains tax planning methods properly, the tax burden might be reduced and profits could rise, benefiting the shareholders. The study's explanation of how managers behave on behalf of shareholders to minimise tax bills in order to maximise or improve the company's profitability is guided by agency theory.

2.4.2 Hoffman's Tax Planning Theory

Hoffman (1961) introduced the thesis, which claimed that since business concepts underlie taxation, an organisation could modify its operations to lessen its tax burden. Exploring tax planning strategies that can lower the company's tax liability may be a part of changing the way business is conducted. A further tenet of the theory was that since taxation is frequently based on business or accounting principles, a company might alter its operations to reduce its tax liability. Additionally, in accordance with this approach, tax planning entails businesses maximising legal loopholes in order to minimise their tax liabilities (Ishola Rufus Akintoye et al., 2020). In order to increase accounting profit, it is therefore intended to step up initiatives that lower taxable income (Peter, Hamid, & Ibrahim, 2020). This idea thus implies a direct or favourable relationship between corporate profitability and tax preparation actions.

However, the method presupposes that a business' tax bill is calculated according to its taxable income rather than its bookkeeping profits. Taxable income, not accounting income, is used to determine a company's tax liability, thus businesses should only participate in tax planning when doing so is likely to result in the lowest possible taxable income without having a material impact on the business's bottom line. As long as they don't break the rules, entities can adopt tax planning tactics with the backing of this idea. Omesi and Appah 2021 state that firms that use legal tax loopholes and use leverage effectively have lower effective tax rates and larger after-tax profits.

Long-term tax planning success, as underlined by the theory, requires flexible, adaptable activities that allow for the continuation of strategies over time (Onyeka-Iheme, 2021). Since taxation is based on business or accounting principles, the argument goes, a company can adjust its operations to lower its tax bill. According to the theory's conclusions, companies that engage in tax planning tend to be more successful in the long run (Kayode & Folajinmi, 2020).

The purpose of this study was to analyse the connection between corporate tax planning methods and the profitability of consumer goods businesses; the agency theory and Hoffman's Tax Planning Theory were chosen as the study's supporting theories to do so.

RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methods that were employed to complete this investigation. All the details of the study's setup, population, sampling, data collecting, data analysis, variable measurement, and model parameters will be laid out in great detail.

3.2 Research Design

This study will employ ex-post factor research design because the study entailed the use of secondary data of the study population to be extracted from the annual reports and accounts of the sampled Non-financial companies for the period 2007-2019. The research design is justified base on the nature of the data to be collected (historical data) and the analysis to be carried out on it.

3.3 Population of the Study

The population of this study consist of seventeen (16) companies listed on the floor of Nigerian stock exchange (NSE) as at December 2019.

Sub sectors/ Companies	Year of Listing
Cadbury Nigeria PLC	1976
Champion Breweries PLC	1983
Dangote Sugar Refinery PLC	2007
DN Tyres and Rubber PLC	1961
Flour Mills PLC	1979
Golden Guinea Breweries PLC	1979
Guinness Nigeria PLC	1965
International Breweries PLC	1995
Northern Nigeria Flour Mills PLC	1978
Nascon Allied Industries PLC	1992
Nestle Nigeria PLC	1979
Nigerian Breweries PLC	1973
Nigerian Enamelware PLC	1979
P.Z Cussons Nigeria PLC	1972
Unilever Nigeria PLC	1973
Vita Foam Nigeria PLC	1978

Source: NSE Daily Official Listing, 2019.

3.4 Sources and Method of Data Collection

This research work employs secondary method of data collection and the data will be obtained from annual reports and account of the sampled companies from 2007-2019.

3.5 Techniques of Data Analysis

The techniques of data analysis covers descriptive statistic, correlation matrix, regression techniques.

3.5.1 Descriptive Statistics

The study used descriptive statistics to find the mean and standard deviation of the data. The Mean, Minimum, Maximum, and Standard Deviation are computed using this tool to categorise the dependent and independent variables.

3.5.2 Correlation

Using the Pearson correlation method, we will assess the relationship between corporate tax planning strategies and the success of Nigeria's non-financial businesses. The level of correlation between the independent factors and the dependent variable is revealed.

3.5.3 Multiple Regressions

The data analysis will use a multiple regression strategy with panel data methodology. To ascertain how variations in any of the independent variables (thin capitalization and capital intensity) affect the dependent variable (profitability), multiple regressions will be performed. The use of panel data methods with multiple regressions will be appropriate for data analysis. This is due to the data's panel nature, which justifies the use of a panel data methodology due to its combination of cross-sectional and time series properties.

3.6 Model Specification

The following linear regression equation is modified from the works of (Adejumo & Sanyaolu, 2020) and used for the purposes of this investigation.

$ROCE_{at} = \alpha + \beta_1 TC_{it} + \beta_2 CI_{it} + + e_{it}$

Where: α = the constant

β = the coefficient

e_{it} = Random error term where i is cross sectional and t time identifier

ROCE=Return on Capital Employed

TC= Thin Capitalization,

CI= Capital intensity,

Table 3.2: Variables measurement

Variables	measurement
Independent variables/	
Thin capitalization/TC	Total Debt/Total Assets
Capital intensity/CI	Non-current assets/ total assets
Return on capital employed/ROCE	EBIT divided Total Asset minus Current Liabilities

corporate tax planning

DATA DISCUSSION AND ANALYSIS

Table 4.1 Regression Results on corporate tax planning and profitability

Dependent Variable: ROCE		
	p>/t/estimates (and coefficient)	
Independent Variable	FE Regression	RE Regression
TC	0.00(-0.302)	0.00(-0.301)
CI	0.00(.201)	0.00 (0.197)
R2	0.44	0.44
Prob. F	(0.0000)	(0.0000)
Hausman test 0.80		

Significance at 1%, Source STATA, 2023

The regression findings of the study's independent variables (Thin capitalization and capital intensity) and the dependent variable (ROCE) are shown in Table 4.1 above based on fixed and random effects. The choice between Fixed Effect (FE) and Random Effect (RE) regression was based on the results of the hausman specification test. The Hausman test's insignificant ($p > 0.05$) p-value of 0.80 demonstrates that the RE is superior. So, RE is employed for data interpretation.

A multiple coefficient of determination called cumulative R2 (0.44) was calculated from the regression findings to show what fraction of overall variance in the dependent variable could be attributed to the explanatory factors. This suggests that the low capital intensity and thin capitalization of the enterprises investigated explain 44% of the total variation in ROCE. Explanatory variables are well-selected, integrated, and utilised if they can account for a sizable proportion of the variation in return on capital employed.

According to the regression analysis, TC significantly and negatively affects the return on capital employed. This suggests that an increase in TC, with all other independent variables being constant, will considerably and negatively affect the return on capital employed. This is in line with the conclusions reached by Sohail and Ulfat (2019), who discovered that TC has a considerable detrimental impact on profitability.

The outcome of the regression also demonstrates that capital intensity (CI) has a favourable and noteworthy impact on the return on capital employed. This suggests that an increase in CI, while keeping other independent variables constant, positively and significantly boosts the return on capital employed. This is in line with Astrinur et al., (2020) findings, which indicated that CI has a favourable and significant impact on profitability.

Centered on the results of the investigation, we may take the following conclusions:

1. Thin Capitalization has negatively and significantly affected the return on capital employed (Profitability) of non-financial companies in Nigeria.
2. Capital intensity has positively and significantly affected the return on capital employed (Profitability) of non-financial companies in Nigeria.

The subsequent are the recommendations that were made grounded on the conclusions of the study;

In order to achieve a positive and significant return on capital employed assets (Profitability) of non-financial companies in Nigeria, significant amount of CI and least amount of TC should be maintained in Nigerian non-financial companies.

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