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CORPORATE GOVERNANCE ATTRIBUTES AND TAX AGGRESSIVENESS NEXUS IN THE NIGERIAN NON-FINANCIAL FIRMS

ABANUM, Akpevweoghene Mark[1] & EBIAGHAN, Orits Frank[2]

[1, 2] Department of Accounting, Faculty of Management Sciences,
Delta State University Abraka, Nigeria.

*Corresponding Author: ABANUM, Akpevweoghene Mark
Corresponding Author Email: abanumakpes@gmail.com

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ABSTRACT

This study examined the corporate governance attributes on tax aggressiveness of quoted non-financial firms in Nigeria. Ex post facto research design was adopted in this study. A sample of 20 firms was randomly selected and their financial records were used to obtain information from them. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant Nigerian Exchange fact books were used to collect data for 2017-2021. The data collected was analyzed using descriptive statistics, with the use of Panel Least Square (PLS) as a technique for hypothesis testing, with the use of Eviews version 9 software. Results from the study indicated that a significant positive relationship was observed to exist between board independence and tax aggressiveness and a significant positive relationship was observed to exist between board independence and tax aggressiveness and also a significant relationship is observed to exist between board gender and tax aggressiveness. Thus, it was recommended that the regulatory authorities should ensure that, the board size of non-financial firms in Nigeria should not be able 10. More so, efforts should be made to ensure that, the non-executive directors should be more autonomous in the discharge of their oversight responsibilities. Lastly, more women should come on board since women are more risk averse/conservative than their male counterparts.

Keywords: Corporate Governance Attributes, Tax Aggressiveness, Nexus, Nigerian Non-Financial Firms.

INTRODUCTION

The term tax aggressiveness is a global construct as no country (be it developed, or emerging) is said not to be immune against tax aggressiveness. Accordingly, tax aggressiveness, from its origin as a practice associated with large multinational firms seeking revenue for profit repatriation has now grown into a strategic cost saving approach employed by corporations of all shades and sizes globally. Therefore, it is generally accepted that most shareholders prefer to smoothen their tax figures with a view to increase not only after-tax earnings per share but also the cash available for shareholders. As such, tax aggressive policies are dependent on how an organization is structured.

Additionally, the link between corporate governance and tax aggressiveness was hypothesized by two key perspectives. Firstly, in terms of the traditional view, aggressive tax strategies represent a firm's value maximizing activity as it entails a wealth transfer from the government to the shareholders of a firm (Khurana & Moser, 2013). Therefore, shareholder value should increase with the efficacy of corporate tax strategies as so long as the expected marginal benefit exceeds marginal cost (Desai & Dharmapala, 2009). Thus, in this regard, tax aggressiveness activity will be allowable by corporate governance because it results in shareholder wealth maximization.

In view of the above, the issue of tax aggressiveness has become very common amongst Nigerian quoted firms. Specifically, a recent study by Ogbeide and Iyafekhe (2018) found out that for a sample of nonfinancial companies totaling, eighty-five (85), about 64.71% of the companies were found to be tax aggressive to some extent. Similarly, evidence of tax aggressiveness of Nigerian quoted firms has also been established by other studies such as those by Oyeleke Oyenike, Erin, and Emeni (2016), Ogbeide (2017), Salaudeen and Ejeh (2018), Salawu and Adelabu (2017) Although it is possible that the extent of tax aggressiveness can be industry specific and exhibit considerable heterogeneity across firms, however, the unsettled area in the literature is the debate regarding what the determinants of tax aggressiveness are and what factors precipitate the practice of tax aggressiveness by quoted companies in Nigeria.

A high proportion of the available studies exploring the causative factors of tax aggressiveness in Nigeria focused on the role of firm characteristics such as firm size, leverage, profitability, amongst others, on tax aggressiveness in Nigeria (Ogbeide, 2017; Uniamikogbo, Atu and Atu, 2017; Ilaboya, Obasi & Izevbekhai, 2016) and the findings in this regard have been quite mixed and inconclusive. But in the area of corporate governance, a few studies such as those by Onyali and Tochukwu (2018) and Oyeleke, Oyenike, Erin and Emeni (2016) focused on this area. For example, Onyali and Tochukwu (2018) looked at the relationship between board size and tax aggressiveness and found a positive but an insignificant effect. Oyeleke et al (2016) examined, amongst other variables, the role of board independence and found a negative and significant relationship. The gender of the firm’s directors was suggested to affect corporate polices and outcomes (Arun, Almahrog & Aribi, 2015). However, the empirical evidence on the nature and direction of the relationship has also been conflicting as shown in studies (Boussadi, & Hamed 2015; Oyeleke, Erin & Emeni, 2016; Richardson, Taylor & Lanis, 2016). This study took a different approach from previous studies by looking at an aspect of corporate governance in relation to tax aggressiveness that had been insufficiently examined by foreign studies and that is the role of Chief Executive Officer (CEO) governance attributes. This is important because CEOs strongly influence whether stakeholder groups are considered important (Delmas & Toffel, 2016; Eesley & Lenox, 2017) and hence ignoring the potential effect of CEOs' personal characteristics is a gap. As observed earlier, although much information exists on the empirical side giving an insight into the relationship between other corporate governance variables, the study also proceeds to ascertain if there exists an optimal governance composition and, in this regard, employed the threshold model to estimate this. The method of threshold model with the individual effect minimizes the sum of residuals squares to determine the threshold value and tests the prominence of the threshold value. The specific idea is to select a certain variable as the threshold variable, and divide the regression model into multiple intervals according to the searched threshold.

The broad objective is to examine the corporate governance attributes on tax aggressiveness of quoted non-financial firms in Nigeria. The specific objectives are to examine the extent to which board independence, board size, and board gender diversity impact tax aggressiveness in quoted firms in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Corporate Governance

A common assertion of most corporate governance definitions implies a mechanism targeted to minimize problems generated by the separation of ownership and control (Wells, 2010). According to Uwuigbe, Olusanmi and Iyoha (2015) corporate governance is seen as a system or an arrangement that comprises a wide range of practices (accounting standards, rules concerning financial disclosure, executive compensation, size and composition of corporate boards) and institutions that protect the interest of a corporation's owners. According to Aguilera, Defenders and de Castro, (2012) corporate Governance is a system by which organizations are directed and controlled. The board's responsibilities include supervising the management and the smooth running of the business, setting the strategic objectives of the company, providing the leadership to put them into effect, and reporting to shareholders on their improvement over time. The boards are subjected to stipulated laws and regulations ().

In Nigeria, the legal/regulatory framework for the observance of corporate governance was secured through a combination of voluntary and mandatory mechanisms such as the Companies and Allied Matters Act 2015 as amended, Investment and Security Act 2017, Securities and Exchange Commission (SEC) 2011, Corporate Governance Code and various industry specific governance codes. The Atedo Peterside led committee on corporate governance was commissioned by the Securities & Exchange Commission in Nigeria. It resulted in the publication of the 2015 SEC Corporate Governance Code and presently, a revised SEC Code of 2011. Industry specific Codes were published by the regulators for companies under their domain. They included CBN Codes 2017 for banks and other financial institutions, PENCOM Codes 2016 for pension fund administrators and NAICOM Codes for insurance companies.

Corporate Governance Attributes

Various corporate governance attributes used in this study are:

Board Size

Generally, large boards are generally perceived as being less effective in the exchange of ideas, promoting coalition between board members (Firth, Fung & Ruin, 2017) as well as impinging aggressive tax measures. In the same vein, Gonzalez and Garcia-Meca (2013) believed that excessive board size can be an obstacle to speed and efficiency in decision-making of organization owing to the factor that it may cause coordination and communication problems among members of the board. However, Ideh, Jeroh, and Ebiaghan (2021) opine that, small boards of directors strengthen good tax management. Hence, the study hypothesizes: Board size does not influence tax aggressiveness significantly.

Board Independence

When boards of directors are given autonomy, it brings about efficient control mechanisms. Undeniably, external members can ensure the competence and independence at the same time (Onyali & Okafor, 2018). Worthy to note is that, a higher the proportion of outside (non-executive) directors in the board, the lower the likelihood of tax aggressiveness (Bhagat & Bolton 2016). This is however not so in reality. Hence, the study hypothesizes: Board independence does not influence tax aggressiveness significantly.

Board Gender Diversity

Given that women are more cautious and less motivated to bear excessive risks generally than men, the gender of the firm’s directors have been suggested to affect corporate polices and outcomes. Arun, Almahrog and Aribi (2015) opined that firms with female directors have lower absolute discretionary accruals (or earnings management). This is because they tend to be more risk averse/conservative than their male counterpart (Adams & Ferreira, 2018). This may not be so in all cases. Evidently, Croson and Gneezy (2018) evidenced that that gender diversity of the board of directors’ decreases tax optimization. This reveals that, board gender diversity can either reduce or increase tax aggressiveness. Hence, the study hypothesizes: Board gender does not influence tax aggressiveness significantly.

Concept of Tax Aggressiveness

Companies’ tax aggressiveness can be seen in two ways. One is the legal way; tax aggressiveness is done within the ambience of the law. In this case, it is considered as legal tax avoidance and it is one kind of the valid services provided by the accountants. Secondly, it may be considered as tax sheltering aimed at reducing a company’s tax burden/liabilities (Desai & Dharmapala, 2017). This act may further include tax avoidance or desire to evade national income tax without exposure to economic loss or risk (Wilson, 2018). Simply put, tax aggressiveness is a financial strategy deployed by managers to reduce the public debts/liabilities which the firm owes various stakeholders (Bruce, Deskins & Fox, 2017). This justify why tax planning is often considered tax avoidance.

On the overall, tax aggressiveness covers: (i) tax evasion: which can be defined as intentional illegal behaviours such as a direct violation of tax laws in order to escape payment of taxes, (ii) tax avoidance which can be defined as all 'illegitimate' but not necessarily illegal behaviours in order to reduce tax liabilities and (iii) legitimate saving of taxes which can be defined as commonly accepted forms of behaviours which are neither against the law nor the spirit of the law.

Theoretical Review

The agency theory was used to underpin the study. The agency theory addresses how the conflict of interests between the agent (manager) and the principal (owners) are addressed. From the perspective of agency theory, the role of agency costs arising from tax aggressiveness is put on the front burner (Khurana & Moser, 2009).The issue here is whether tax aggressiveness will create the scope for managerial opportunism. If the free cash flow from aggressive behaviour induces the threat of opportunism by managers, the stance of corporate governance will be to mitigate such practices.

Empirical Review

Using various techniques, Chris, Tasios, & Filos (2020); Taylor and Lanis (2016); Lanis and Richardson (2015) reported that, a diverse board (presences of females on the board) reduces the likelihood of tax aggressiveness. However, Antonio Demetris and Monica (2020) found that, a diverse board (presences of females on the board) increases the likelihood of tax aggressiveness.

Uniamikogbo, Bennee and Adeusi (2021) and Ogbeide and Obaretin (2018) in a study the nexus among board size, gender diversity, CEO duality, and ownership structure on tax aggressiveness in the Nigerian Oil & Gas marketing firms and non-financial sector in Nigeria from 2013- 2017 and 2012 to 2016 respectively, evidenced that, gender diversity, board size reduced tax aggressive tendencies significantly. However, Onyali and Okafor (2018); Ogbeide and Iyafekhe (2018); Odoemela Ironkwe and Nwaiwu (2016) reported that, board size is not a major driver of tax aggressiveness in the Nigerian manufacturing sector from 2015-2016.

RESEARCH METHODOLOGY

This study adopted the longitudinal data design since the study variables have both cross-sectional and time-series properties. The study sampled 20 quoted non-financial firms using stratified sampling technique. The sourced data spanned from 2017-2021. In view of this, the panel least squares estimates was considered. Meanwhile, post-estimation diagnostics were examined as well. Econometrically, the study used the univariate analysis. It is therefore presented below:

Model 1:

$TAG_{it} = \partial 0 + \partial 1\ BID_{it} + \mu_{it}$ --εqn .3.1

Model 2:

$TAG_{it} = \partial 0 + \partial 1\ BDS_{it} + \mu_{it}$ --εqn .3.2

Model 1:

$TAG_{it} = \partial 0 + \partial 1\ BGD_{it} + \mu_{it}$ --εqn .3.3

Where:

TAG= Tax Aggressiveness

BDS=Board size

BID= Board independence

BGD= Board gender diversity

Table 1

Measurement of Variables

Variable	Denotation	Measurement of Variables
Board size	BDS	Measures the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year
Board independence	BID	Proportion of non-executive directors to total number of directors on the board.
Board gender diversity	BGD	Percentage of female directors on the board to total board members.

Source: Researcher’s Compilation (2022)

EMPIRICAL RESULTS

This section dealt extensively with the descriptive statistics and the presentation and interpretation of regression results:

Table 2

Summary of Descriptive Statistics

Measures	TAG	BID	BDS	BGD
Mean	0.71	0.73	6.3	0.71
Std. Dev.	0.45	0.44	1.5	0.45
Maximum	1	1	9	1
Minimum	0	0	3	0
Observations	300	300	300	300

Source: Regression Output Computation

From table 4.1, tax aggressiveness (TAG), Board Independence (BID), board size (BDS) and Board gender diversity (BGD) reported average values of 0.71, 0.73, 6.3, and 0.71, respectively but deviated by 0.45, 0.44, 1.5, and 0.45. This suggests that, TAG, BID, BDS, and BGD clustered/oscillates around their average values. Meanwhile, they reported maximum/highest values of 1, 1, 9, and 1 respectively but had minimum/lowest values of 0., 0, 3, and 0 respectively.

Results Presentation and Interpretation

In line with the three objectives specified each result are presented and discussed alongside:

Table 3

Board Independence (BID) and Tax Aggressiveness (TAG)

Regressand: TAG				
Method: Panel Least Squares				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
BID	0.913606	0.360903	2.531445	0.0234

Source: Author’s Computation

Table 4.2 (Model 1) evidenced that; board independence (BID) has a positive coefficient value of 0.91. This means that, a unit rise in BID will increase TAG by 91%. In terms of statistical significance, it is highly statistically significant. By implication, BID is a major factor which influences the level of a firm’s tax aggressive policies. This justifies that, most firms listed in the non-financial sector are highly tax aggressive./evade/avoid tax. This conforms Chris, Tasios, & Filos (2020) findings.

Table 4

Board Size (BDS) and Tax Aggressiveness (TAG)

Regressand: TAG				
Method: Panel Least Squares				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
BDS	0.526790	0.175380	3.003706	0.0034

Source: Author’s Computation

Table 4.3 (Model 2) evidenced that; board size (BDS) has a positive coefficient value of 0.526790. This means that, a unit rise in BDS will increase TAG by 53%. This further connotes that, the larger the size of the board, the more tax aggressive they become. This supports the agency theory. Put differently, small board sizes are less tax aggressive than large board size often faced with coordination issues. In terms of statistical significance, it is highly statistically significant. By implication, BDS is a major factor which influences the level of a firm's tax aggressive policies. This justifies that, most firms listed in the non-financial sector are highly tax aggressive./evade/avoid tax.

Table 5

Board Gender Diversity (BGD) and tax aggressiveness (TAG)

Regressand: TAG				
Method: Panel Least Squares				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
BGD	0.512183	0.184803	2.771515	0.0059

Source: Author's Computation

Table 4.4 (Model 3) evidenced that; board gender diversity (BGD) has a positive coefficient value of 0.512183. This means that, a unit rise in BGD will increase TAG by 51%. This further connotes that, the more the board is diverse, the more tax aggressive the board becomes. In terms of statistical significance, it is highly statistically significant. By implication, BGD is a major factor which influences the level of a firm's tax aggressive policies. This justifies that, most firms listed in the non-financial sector are highly tax aggressive./evade/avoid tax. This result conforms Andrea, Antonio Demetris and Monica (2020) but deviated from Chris, Tasios, & Filos (2020); Taylor and Lanis (2016)

CONCLUSIONS AND RECOMMENDATIONS

Using Panel Least square models evidenced that, Board size (BDS), Board independence (BID), and Board gender diversity (BGD) enhanced Tax Aggressiveness (TAG) significantly. On this basis, the study concludes that, most firms listed in the non-financial sector are highly tax aggressive. Hence, the following recommendations were made:

i. Regulatory authorities should ensure that, the board size of non-financial firms in Nigeria should not be able 10.
ii. Efforts should be made to ensure that, the non-executive directors should be more autonomous in the discharge of their oversight responsibilities.
iii. More women should come on board since women are more risk averse/conservative than their male counterparts.

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