CORPORATE GOVERNANCE (CG) STRUCTURE AND TAX AGGRESSIVENESS (TAG) OF QUOTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

The study investigates the Influence of Corporate Governance (CG) Structure on TAG. The longitudinal research design was used for the study and the sample for the study comprises of 35 manufacturing companies quoted on the stock exchange covering the period from 2008-2018. Panel regression was used estimating the model for the study. The results reveal that; (i) The board size (BDS) has a positive effect on tax aggressiveness and significant at 10% (p=0.0619), (ii) The effect of board independence (BDIND) is significant at 5% (p=0.000) though with a negative coefficient (-0.0962) which suggest that increases in board independence reduces the level of tax aggressiveness, (iii) Board Gender diversity (BGD) has a positive effect (0.1034) on tax aggressiveness and also significant (p=0.007) at 5% which at suggest that an increase in the board female proportion increases corporate tax aggressiveness practice. It is recommended that firm need to ensure that their corporate governance systems reflect high quality in terms of its composition and performance. The CG structures must be such that can address both the opportunistic tendencies of managers on one hand and the shareholder excessive concern for short term gains as both can interfere with CG and are key drivers of TAG practices. Specifically, level of board independence should be increased and female participation in boards be improved in corporate boards

Keywords*: Board Composition, Board Size, Board independence, Board Gender diversity, Agency theory*

1 Introduction

Taxes are a substantial expense to the company and shareholders, resulting in a loss in cash flow accessible to them, and it is often assumed that shareholders allow tax-aggressive strategies in order to raise not just available cash but also after-tax earnings per share. According to Frank, Lynch, and Rego (2009), tax aggressiveness entails tax planning that involves a wide range of transactionary activities with the goal of lowering taxable income, and is an aspect of tax avoidance behaviours more broadly, which may or may not be illegal. Tax avoidance is now more increasingly common among Nigerian publicly traded firms. In particular, according to a recent research by Ogbeide and Iyafekhe (2018), out of a total of 85 non-financial enterprises studied, 64.71 percent of them were determined to be tax aggressive in some way. Other research, such as Oyeleke et al. (2016), Salaudeen and Ejeh (2018), Ogbeide (2017), Salawu and Adelabu (2017), Ilaboya, Obasi, and Izevbekhai (2016), have also shown evidence of tax aggressiveness of Nigerian listed corporations.

Specifically, a recent study by Ogbeide and Iyafekhe (2018) found that for a sample of non-financial companies totalling, 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 have also been established by other studies such as Oyeleke et al. (2016), Ogbeide (2017), Salaudeen and Ejeh (2018), Salawu and Adelabu (2017), Ilaboya, Obasi and Izevbekhai (2016) and Uniamikogbo, Atu, and Atu (2017) Though it's probable that the level of tax aggressiveness is industry-specific and varies greatly between companies. The discussion over the drivers of TAG and what variables accelerate the practise of TAG by listed firms in Nigeria remains, nonetheless, an unresolved issue in the research. Although this is not the situation for research findings in advanced markets, where a large number of the leading studies in the area of tax aggressiveness have come from, the investigations is bedevilled by a paucity of research findings paying much attention to the search for corporate determinants of tax aggressiveness in Nigeria. To the best of the researchers' knowledge, a large part of the known studies investigating causal aspects of tax aggression Nigeria have put much attention on the role of firm characteristics such as firm size, leverage, profitability amongst others on tax aggressiveness in Nigeria (Ogbeide2017; Uniamikogbo, Atu, and Atu 2017Ilaboya, Obasi, and Izevbekhai 2016), and the findings have been significantly mixed and inconclusive, prompting this current study. The overall goal of this research is to look into the impact of various corporate governance structures on the TAG of listed industrial companies in Nigeria. The specific objectives are to;

i Investigate the effect of board independence on TAG in listed manufacturing firms in Nigeria
ii Examine the impact of board size on TAG in listed manufacturing firms in Nigeria?
iii To examine the effect of board gender diversity on TAG in listed manufacturing firms in Nigeria?

2. Literature Review

2.1 Conceptual Issues

2.1.1 Corporate Governance (CG) Structure and Board Composition

CG refers to the division of rights and responsibilities between the principal and agents It is a system of corporate monitoring and provides a framework for putting the corporation's objective in place. A firm's governance is als o defined by the Organization for Economic Cooperation and Development (OECD, 2003) as a method for directing and controlling businesses (Cadbury, 1992). Uwuigbe, Olusanmi, and Iyoha (2015) defined it as a system that includes a variety of practices and institutions that protect the interests of the shareholders. The board is a very essential element of corporate governance systems in modern corporations. The board has the responsibility of overseeing operation of the company, establishing the strategic goals, implementation and reporting to shareholders. As a result, the focus of this research was on corporate governance structure, which included board size, board composition, and board composition.

2.1.2 Concept of Tax Aggressiveness, Board Size, independence and gender diversity

Chen, Chen, Cheng, and Shevlin (2008) pointed out that TAG can be seen as attempts to reduce tax liability using tax planning with the goal of lowering tax paid to the government. Furthermore, Khurana & Moser (2013), define TAG as encompassing all activities aimed solely at reducing corporate tax obligations. They discover that the governance structures are the key cause of management's TAG behaviour. According to this research, TAG is more likely when governance is weak, while it is less likely when governance is effective. For example, Board size is seen to be a significant factor in determining the board's effectiveness. Large boards are often thought to be less successful in exchanging ideas, promoting board member coalition, and enforcing aggressive tax policies (Firth, Fung, & Ruin, 2007). The board size, according to Lanis and Richardson (2011), has a considerable impact on TAG. Aliani and Zarai (2012), on the other hand, claim that there is no correlation between the two.

Non-executive independent directors are always seen as a balanced influence on the board. Yeung (2010), found that increasing board independence lowers the effective tax rate. It suggests that the corporation adopts a tax-aggressive policy even in the presence of a strong corporate governance. The board gender diversity is another element of corporate governance. It is concerned with the presence of females on corporate boards. It has also been suggested that women play a significant role in ensuring legal compliance, particularly in tax concerns. Fallan (1999) highlight that women tend to be more tuned to avoid deviation from the norm and this will tend to influence the way and manner they deal with tax issues.

2.2 Agency theory and the relationship between CG and TAG

The role of TAG activity by managers within a firm's agency structure raises additional questions about whether their objectives are aligned with those of the shareholders. Slemrod (2004) was one of the first publications to point out the agency issues that arise when companies engage in TAG. Along these lines, Desai, Dyck, and Zingales (2007) developed a model that added to the increasing research on TAG. They argued that because TAG involves a multiple player; shareholders, insiders/managers, and the government, there would inevitably be a conflict of interest. The separation of ownership and control is a crucial feature. Inside a corporate structure, one crucial feature is the separation of ownership and control (Slemrod, 2000). Conflicts between principal and Agent are normally expected because managers can be opportunistic and divert company wealth for their own gain (Desai and Dharmapala, 2006; Jensen and Meckling 1976). Chen and Chu (2005) were among the first researchers to examine the nexus between CG and TAG through the lenses of the agency theory. The argue that TAG is devised through managers deliberately ensuring the existence of information asymmetry between the firm and the tax authorities so that they are able to find avenues to lower their tax payments and in order to avoid tax authorities' discovery. Unfortunately, this action has a direct influence on greater information asymmetry between management and shareholders, and as a result, greater information asymmetry will reduce shareholders' capacity to value the company (Wang, 2010). TAG is linked to the agency problem in that it is seen as a technique for creating a shield for management rent diversion and opportunism. According to this viewpoint, TAG might potentially provide a cloak for managers' expedient acts and rent diversion (Desai & Dharmapala, 2006).

2.3 Empirical review

Ribeiro, Cerqueira, and Brandao (2015) examined how financial and operational features of organisations influence ETRs. Second, they wanted to demonstrate how Corporate Governance qualities play a role in understanding ETRs. They chose a sample of 704 non-financial enterprises listed on the London Stock Exchange between 2010 and 2013 to conduct the study. They calculated four regressions to investigate the factors that influence effective tax rates. They used Generalized Least Squares (GLS) to evaluate their econometric model. Their empirical findings revealed that larger and more lucrative businesses had greater ETRs. Capital intensity, leverage, and R&D costs, on the other hand, are all on the rise. ETRs, on the other hand, are negatively impacted by capital intensity, leverage, and R&D costs.

Yeung (2010) investigated the link between corporate governance and TAG. The focus is on Hong Kong-based businesses. The findings reveal that corporate governance impacts on the effective tax rate, but that the link is highly influenced by the economy. The findings reveal that corporate governance impacts on the effective tax rate, but that the link is highly influenced by the economy.

For the years 1996 to 2009, Aliani and Zarai (2012) looked at female representation on boards of directors and corporate tax strategy in American companies. A total of 300 companies (from the S&P 500) were chosen as a sample. The panel least square estimate method was used to evaluate the model. The findings indicated that gender diversity on boards of directors is not substantial and had no impact on TAG over the study period. In a study, Dirk and Johannes (2017) investigate the link between CG and TAG. They utilise a two-stage instrumental variable approach. Their analysis shows that strong CG characteristics tend to lower effective tax rate for the firms used in the study.

Chen, Cheng, and Shevlin (2007) investigate TAG of enterprises with foreign-ownership in the United States. They conclude that companies with foreign ownership show less TAG than those without it. Furthermore, they found that companies without foreign institutional investors and companies planning to obtain outside financing show less TAG. Richardson, Taylor, and Lanis (2016) conducted research to see how women on boards of directors affect TAG using selected firms in Australia. The results for the study showed that having a female on the board of directors minimizes the chances of TAG.

In research, Otieno (2014) looked at whether disparities in corporate governance procedures explain variances in TAG in Kenya. The goal of the research was to see if there was a link between the ownership structure of firms listed on the Nairobi Securities Exchange and TAG. The sample of the population consisted of all 61 listed businesses. After that, descriptive and regression analysis were used to examine the data. According to the study's conclusions, the ownership structure has no impact on TAG.

In research published in 2014, Annuar, Salihu, and Obid looked examined the link between business ownership structure and corporate tax evasion in Malaysia. Firms listed on Bursa Malaysia's main market were chosen as the source of data for the inquiry covering from 2009 to 2013The Generalized Method Moment (GMM) estimator was used for the estimation. The results revealed that foreign ownership is a significant determinant of TAG.

Between 2004 and 2014, Salawu and Adediji (2017) investigated the influence of CG on TAG using non-financial firms listed firms in Nigeria. A sample of fifty of such firms were used for the study covering ten industries. The findings revealed a strong and positive link between effective tax rates and firm value

Onyali and Okafor (2018) investigated the effect of CG structures on TAG across a group of Nigerian manufacturing enterprises. The study employed forty-four manufacturing Firms listed on the Nigerian Stock Exchange from 2005 to 2016. The data was evaluated using the Ordinary Least Square approach. The results confirm that board size has no significant impact of board size on TAG while board diversity, board independence has significant impact on TAG.

3. Methodology

In this study, longitudinal research design is employed. The population of this study consists of 40 manufacturing companies quoted on the Nigerian Stock Exchange (NSE) as at December 31, 2018 (NSE, 2018). Based on availability of data, the sample was purposively made of 35 companies. In this study, secondary data, retrieved from the annual reports of sample firms for 2012-2018 were subjected to empirical tests using linear regression analysis.The model adapts those of Oyeleke, Erin and Emeni (2016) as below;

$TAG_{it}= \partial_0 + \partial_1\ BDIND_t + \partial_2\ BDS_{it} + \partial_3\ BDGD_{it} + \varepsilon_{it} + \mu_{it}$

Where: TAG= Tax Aggressiveness, BS=Board size, BIND= Board independence BDGD= Board gender diversity; i = ith firm; t = time period μ_{it} = “Model disturbance term; ε_t= Stochastic term;

i = “number of sampled cross-sectional firms; t = time period of the sampled companies

$\partial_1 < 0, \partial_2 < 0, \partial_3 < 0,$

4. Results and Discussion

Table 1. Descriptive statistics

	Mean	Max	Min	Std. Dev.	Skewness	Kurtosis	J.B	Prob
DS	8.9583	19	4	2.517371	0.626721	3.523003	55.41627	0.00
BDIND	0.65789	1	0	0.1601	-0.66037	3.84483	73.84478	0.00
BGD	0.0910	0.44	0	0.095332	0.868702	3.26362	92.77069	0.00
TAG	0.2868	0.43.	0.11	0.26077	-0.36409	2.08697	40.97289	0.00

Source: Researcher’s computation.

The descriptive statistics on the variables are shown in Table 1 (appendix 1), and as can be seen, BDS has a mean value nine (9) members with a standard deviation of 2.75, indicating the degree of dispersion from the mean. The maximum and minimum were 19 and 4, respectively. With a standard deviation of 0.16, BDIND has a mean value of 0.66, indicating that around 66 percent of board members are independent. This ratio is laudable, and if correctly utilised, it may increase boardroom integrity, lower agency costs, and enhance the board's reputation. The mean for BGD is 0.091 and this suggest that on the average companies in the distribution have approximately 0.09% of board members who are females. TAG has mean of 0.2863 with maximum and minimum values of 0.43 and 0.11 respectively.

4.2 Test results and discussions

Hypothesis

H0: corporate governance structure has no significant influence on tax aggressiveness of quoted manufacturing companies in Nigeria.

Table 2. CG Structure and Tax Aggressiveness Regression Results

Variable	Aprori Sign	Baseline TAG Model	Seasonality Adjusted TAG Model
C	+	0.1342 (0.102) {0.1889)	0.2585* (0.1044) {0.0136}
BDS	+	0.0048** (0.0026) {0.0619}	
BDIND	+	-0.0962* (0.027) {0.000}	
BGD	+	0.1034* (0.0384) {0.0073)	

Source: Researchers' computation

Table 3. Model parameters

R^2	0.6624
Adjusted R^2	0.2705
F-statistic	3.944
Prob (F-stat)	0.000
Durbin-Watson	1.9

Source: researchers' computation

Table 2. and 3. above shows results examining the influence of CG structure on TAG. The R^2 stood at 66.24% with the F-stat of 3.994 (p-value = 0.00) which is significant at 5%. As can be seen, Board (BDS) has a positive (0.0048) effect on tax aggressiveness and statistically significant at 10% (p=0.0619), the effect of board independence (BDIND) is statistically significant at 5% (p=0.000) though with a negative coefficient (-0.0962) which suggest that

increases in board independence reduces the level of tax aggressiveness. Board Gender diversity (BGD) has a positive effect (0.1034) on tax aggressiveness and also statistically significant (p=0.007) at 5% which then implies that increasing board female proportion increases corporate tax aggressiveness practice. Our findings are consistent with Rawiwan (2013), Onyali and Okafor (2018), Ogbeide and Obaretin (2018) Aliani and Zarai (2012) Onyali and Okafor (2018)

5. Summary and Conclusion

In the light of the study findings above, this study concludes that corporate governance structure has significant positive influence on TAG of quoted manufacturing companies in Nigeria. Consequently, it is recommended that firm need to ensure that their corporate governance systems reflect high quality in terms of its composition and performance. The CG structures much be such that can address both the opportunistic tendencies of managers on one hand and the shareholder excessive concern for short term gains as both can interfere with CG and are key drivers of TAG practices. Specifically, level of board independence should be increased and female participation in boards be improved in corporate boards.

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