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BOARD STRUCTURE AND CORPORATE TAX AGGRESSIVENESS IN LISTED NIGERIAN FIRMS

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Abstract
The focus of the study is to examine board structure and corporate tax aggressiveness in listed Nigerian firms. Specifically, Board size (BDS), board independence (BDIND) and board ownership (BDOWN) are examined as indicators of board structure. This study utilized the more robust longitudinal data design which was seen as a combination of both cross-sectional and time-series design properties. A sample of 80 firms was then used for the analysis. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant NSE fact books were used to collect data for 2010-2019. The effect of board structure on tax aggressiveness was analyzed using panel regression. The estimation results reveal that BDIND, BDS and BDOWN all have a negative coefficient and significant at 5% suggesting that an increase these board structure variables results in a reduction in the tax paid/ pre-tax income ratio and this implies an increase in tax aggressive practices. The study concludes that so long as the expected marginal benefit exceeds marginal cost and consequently, tax aggressive strategies could be allowable by corporate boards. Based on the findings of the study, the study recommends that increasing the number of independent directors is not sufficient to curtail tax aggressiveness. This may be so especially when aggressive tax strategies represent a firm's value maximizing activity as it entails a wealth transfer from the government to shareholders of a firm. The study recommends that boards must come to see tax planning activities as unethical even in cases where they may not be illegal.

Keywords: Tax aggressiveness, board size, board independence, and board ownership

1. INTRODUCTION

Tax aggressiveness from its origin is a practice associated with large multinational firm seeking avenue for profit reparation, this has now grown into a strategic cost saving approach employed by corporations of all shapes and sizes globally and no country appears to be immune from the growing practice of tax aggressiveness. Consistent with Maltinez (2017) and Frank et al (2009), tax aggressiveness is tax planning that consists of a great variety of transactions with the aim to reduce taxable income; and is a subset of tax avoidance activities more generally, which may or may not violate income tax law. Tax aggressiveness could be to a downward management of taxable income through tax planning with respect to reducing tax paid to tax authority (Chen,

Chen, Cheng & Shevlin 2008). Tax aggressiveness is becoming very pervasive amongst Nigerian quoted companies. Evidence of tax aggressiveness of Nigerian quoted firms has also been established Oyeleke, Erin and Emeni (2016), Ogbeide (2017), Salaudeen and Ejeh (2018), Salawu and Adelabu (2017).

These studies arrived at their conclusion by identifying the persistence of declining effective tax rate for several of the companies examined. Understanding the predisposing factors engendering tax aggressive behaviour of companies is one topic area of tax aggressiveness research and this study is drawn to the role of the board structure. An emerging paradigm that emphasizes the link between firms' board structure and their responses to taxes has arisen from this strand of literature (Desai & Dharmapala 2009) pointed out that the role of board structure affects firms' responses to changes in corporate tax rates. They realised that the underlying board structure which is a subset of corporate governance arrangements constitute the major driver for tax aggressive behaviour of management. According to Chytis, Tasios and Filos (2020), in the context of corporate tax behaviour, board structure mechanisms work toward shaping and monitoring managerial behaviour. The board of directors, which is responsible for allocating resources, improving performance, and increasing shareholder wealth, has a central role in choosing a tax-management strategy.

In this regards, board structure and tax aggressiveness has been hypothesized to be related given that aggressive tax strategies represent a firm's value maximizing activity as it entails a wealth transfer from the government to shareholders of a firm (Khurana, & Moser, 2013). Therefore, shareholder's value should increase with the efficacy of corporate tax strategies so long as the expected marginal benefit exceeds marginal cost (Desai & Dharmapala, 2009). Thus, in this regards, tax aggressive activity will be allowable by the board because it results in shareholder wealth maximization. On the other hand, corporate tax aggressiveness can create agency problems because shareholder and manager interests may not be aligned with regards to tax risks. Shareholders often accept that managers or directors will act on their behalf to focus on maximizing profit, which includes a reduction in tax liabilities. However, based on an agency perspective, the separation of ownership and control can lead to corporate tax decisions that reflect private interests of the directors rather than the shareholders. Hence, self-interest directors would structure a firm in a complex manner to facilitate transactions that divert corporate resources for private use (Khurana, & Moser, 2013).

Consequently, this study advances two key theoretical propositions. Firstly, that in the presence of significant agency problems, corporate boards will be averse to tax aggressive activities of management because it is purported to reflect private interests of the directors rather than the shareholders. It can be used to mask opportunistic management behaviour such as earnings manipulations, related party transactions and other resource diverting actions (Desai & Dharmapala 2009). Secondly, in the absence of agency cost problems, tax aggressiveness practices will be allowable by corporate boards because it results in shareholder wealth maximization. By studying how corporate governance is related to tax aggressive behavior, this study provides insight into the efficacy of board structure arrangements in the short term as well as in the long term within the context of shareholder's wealth maximization on one hand and the possibility of managerial opportunism on the other.

2. LITERATURE REVIEW AND HYPOTHESES

2.1 Board Size and Tax Aggressiveness

The effectiveness of the board depends on its size and in fact, the size of the board can influence the management policy of the company. Board size which is proxied by the number of directors on the board is considered to be an important element in monitoring the effectiveness of the board. Large boards are generally perceived as being less effective in the exchange of ideas, promoting coalition between board members (Firth, Fung & Ruin, 2007) as well as impinging aggressive tax measures. For Minnick and Noga (2010), small boards of directors strengthen good tax management, while large boards are proving ineffectiveness because of the difficulties in decision-making about tax aggressiveness policy.

Several studies have examined the relationship between board size and tax aggressiveness and the results have been mixed. For example, Lanis and Richardson (2011), reported that the size of the board has a significant effect on the availability of tax aggressiveness. Uniamikogbo, Bennee and Adeusi. (2019) investigated the effect of corporate governance on tax aggressiveness in Nigeria in the Oil & Gas marketing firms in Nigeria. The secondary source of data collection method was used in generating data from the annual reports and accounts of the selected firms for the period 2013- 2017. Findings from the study showed that a positive and significant relationship exists between board size and tax aggressiveness. In the same vein, Ogbeide and Obaretin (2018) examined corporate governance mechanisms and tax aggressiveness of listed firms in Nigeria. Eighty- five (85) quoted non-financial firms were selected and data were collected over the period 2012 to 2016. The results obtained reveal that board size negatively and significantly impact tax aggressiveness.

In contrast, Aliani and Zarai (2012) reported the non-significance between the size of the board and tax aggressiveness in the American context. They found out that the number of directors did not influence the strategies to minimize tax expenses. Similarly, Onyali and Okafor (2018) examined the effect of corporate governance mechanisms on tax aggressiveness among selected manufacturing firms in Nigeria. The data used for the study were derived from the financial statements of manufacturing companies listed on the Nigerian Stock Exchange (NSE) from 2005-2016. The outcome of the analysis of data revealed that board size has no significant effect on tax aggressiveness. Chytis, Tasios, & Filos (2020) examined the effect of corporate governance mechanisms on tax planning during financial crisis using a sample of 55 non-financial companies listed on the Athens Stock Exchange (ASE) during the 2011–2015. Results showed Board size, were not found to exert a significant influence on corporate tax planning of listed companies in Greece. Odoemela Ironkwe and Nwaiwu (2016) analysed the association between corporate governance mechanism and tax planning in Nigeria. The study made use of secondary data from the audited financial statement of banks quoted in Nigerian Stock Exchange from 1994 to 2014. The findings of study revealed that there is no significant effect between

board size and tax aggressiveness of firms in Nigeria. In the light of the above, the following hypothesis is specified;
H1: Board size has no significant effect on tax aggressiveness of listed firms in Nigeria

2.2. Board Independence and Tax Aggressiveness
The independence of the directors provides the effective control of managers as suggested by the agency theory. Undeniably, external members can ensure the competence and independence at the same time (Onyali & Okafor, 2018). The independent non-executive directors are always viewed as a balancing force in the board; their existence shows a symptom of good corporate governance. There is a claim that outside directors are encouraged to fulfill their spot monitoring, and they refuse to agree with the direction in expropriating shareholders wealth. Therefore, they increase the ability of the board to monitor management effectively in situations characterized by agency problems arising from the separation of ownership, control, and can help reduce the tax aggressiveness. It is therefore reasonable to expect that a proportion of outside directors in higher board could significantly reduce the likelihood of tax aggressiveness.

The study by Zemzem and Flouhi (2013) using panel regression method for a sample of 73 French companies for the period 2006 to 2010 revealed that the higher proportion of outside members failed to influence tax aggressiveness. Onyali and Okafor (2018) examined the effect of corporate governance mechanisms on tax aggressiveness among selected manufacturing firms in Nigeria. The outcome of the analysis of data revealed that independent director and proportion of non-executive directors to executive directors is having a significant impact on tax aggressiveness among quoted manufacturing firms in Nigeria. Chytis, Tasios, & Filos (2020) examined the effect of corporate governance mechanisms on tax planning during financial crisis. The effective tax rates of a sample of 55 non-financial companies listed on the Athens Stock Exchange (ASE) during the 2011–2015. Results showed a significant positive association of board independence with tax planning. In the light of the above, the following hypothesis is specified;
H2: Board independence has no significant effect on tax aggressiveness of listed firms in Nigeria

2.3. Board Ownership and Tax Aggressiveness
The fact that taxes are deductions from the cash flows available to a firm, and hence the dividends distributable to the shareholders, suggests that firm owners would strive to maximize their wealth through various tax aggressive practices. This accounts for one of the reasons Shackelford and Shevlin (2001) argue for ownership structure as a potential determinant of tax aggressiveness. fact that corporate ownership is a ‘core issue and determines the nature of the agency problems arising in the corporate environments. Summarily, while tax aggressiveness benefits the firm the potential non-tax costs associated with it may also be large depending especially on the structure of corporate ownership and control.

Demirguc-Kunt and Huizinga (2001); Egger, Eggert and Winner (2010); and Kinney and Lawrence (2000) have documented consistently positive relationship between foreign ownership and tax avoidance. Khurana and William (2012) note that firms with higher levels of institutional ownership are less tax aggressive because the institutional owners are concerned with long-term consequences of aggressive tax strategies. In conclusion, a firm's ownership structure which affects the nature of the agency problems arising in corporate settings also influences the outcomes of tax aggressiveness (Chen et al 2013). Chytis, Tasios, & Filos (2020) examined the effect of corporate governance mechanisms on tax planning of a sample of 55 non-financial companies listed on the Athens Stock Exchange (ASE) during the 2011–2015. Results showed no significant positive association between ownership concentration and corporate tax planning of listed companies in Greece.

Uniamikogbo, Bennee and Adeusi. (2019) investigated the effect of corporate governance on tax aggressiveness in Nigeria in the Oil & Gas marketing firms in Nigeria. The secondary source of data collection method was used in generating data from the annual reports and accounts of the selected firms for the period 2013- 2017. Data generated were analyzed using descriptive statistics and Ordinary Least Square (OLS) regression. Findings from the study showed that a negative and insignificant relationship exists between ownership structure and tax aggressiveness in the Nigerian Oil & Gas marketing firms. Furthermore, Ogbeide and Obaretin (2018) examined corporate governance mechanisms and tax aggressiveness of listed firms in Nigeria. Eighty- five (85) quoted non-financial firms were selected and data were collected over the period 2012 to 2016. The results obtained reveal that ownership concentration and managerial ownership were positive and significantly impacts tax aggressiveness of listed non-financial firms. In the light of the above, the following hypothesis is specified;
H3: Board Ownership structure has no significant effect on tax aggressiveness of listed firms in Nigeria

2.4. Theoretical Framework-Agency theory
According to the agency-view of tax avoidance, conflicts between firms' owners and its management may arise because managers who are generally expected to make tax-effective decisions may in fact behave opportunistically and divert corporate wealth for their private benefit (Jensen & Meckling 1976; Desai and Dharmapala, 2006). However, the agency-view of tax avoidance is neither undisputed (Blaylock, 2012) nor is it the only interesting theoretical basis for research on the corporate tax-related decision-making process. Tax avoidance strategies are designed by creating information asymmetry between tax authorities and the firm so as to prevent the detection from tax authorities. However, the direct impact of this activity is increased information asymmetry between managers and outside shareholders, and consequently, the increase in information asymmetry will decrease the ability of shareholders to value the firm (Wang, 2010).

An emerging literature in financial economics, emphasises agency cost implications of tax avoidance and suggests that tax avoidance may not always increase the wealth of outside shareholders (Wang, 2010). In accordance with view, tax avoidance activity may contribute to managerial rent extraction, which ranges from theft of corporate earnings and earning manipulation to excessive executive compensation, in various forms. Tax avoidance may potentially reduce the after-tax value of the firm, since the combined costs of company, which include costs directly related to tax planning activities, additional compliance costs, and non-tax costs e.g. agency costs may surpass the tax benefits for shareholders (Wang, 2010). Empirical

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evidence shows that shareholders are aware of the agency problem and thus welcome regulatory actions that do not only prevent managers from extracting rents, but even the occurrence of tax aggressiveness in the first place (Chen et al. 2010) and herein lies the need for corporate governance.

3. METHODOLOGY

As against the cross-sectional or time series design often used, this study utilized the more robust longitudinal data design which was seen as a combination of both cross-sectional and time-series design properties. The population consisted of all non-financial companies quoted on the Nigerian Stock Exchange (NSE) as at December 31, 2020. A sample of 80 firms was then used for the analysis. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant NSE fact books were used to collect data for 2010-2019. The effect of board structure on tax aggressiveness was analyzed using panel regression. Furthermore, the relevant regression diagnostics were also conducted such as serial correlation test, heteroscedasticity test, normality test and the Hausman model selection test.

Model Specification

$$TAG_{it} = \partial_0 + \partial_1 BDIND_t + \partial_2 BDS_{it} + \partial_3 BDOWN_{it} + \partial_4 FSIZE_{it} + \mu_{it} \text{ ------------ } (i)$$

Where:

TAG= Tax Aggressiveness, *BDS=Board size*, *BIND= Board independence* , BDOWN=Board Ownership structure, *FSIZE= Firm size*, i =ith firm, t = time period ε_t = Stochastic term.

The apriori signs are $\partial_1 < 0$, $\partial_2 < 0$, $\partial_3 < 0$, $\partial_4 < 0$

Table 3.1: Variable Measurement and Source

Variable	Definition	Measurement	Source
TAG	Tax Aggressiveness	Effective tax rate	Dyreng, Hanlon & Maydew, (2008),
BDS	Board size	Number of individuals on the board	Ogbeide and Obaretin (2018)
BDIND	Board independence	Ratio of non-executive directors to total directors	Odoemela, Ironkwe and Nwaiwu (2016)
BDOWN	Board ownership	% shareholding of executive directors	Odoemela, Ironkwe and Nwaiwu (2016)
FSIZE	Firm size	Log of total assets	Dyreng, Hanlon & Maydew, (2008),

Source: Researcher's compilation (2021)

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4. PRESENTATION AND ANALYSIS OF RESULT

Table 4.1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Jarque-bera
TAG	0.4085	0.6	0.609	0	0.231	783.641
BDIND	0.658	0.67	0.782	0	0.160	75.443
BDOWN	0.1458	0.035	0.84	0	0.2015	257.704
BDS	8.955	9	19	4	2.515	56.661
FSIZE	7.0452	7	9.02	5.09	0.754	8.1284

Source: Researcher's compilation (2021) using Eviews 10.

Table 4.1 shows the descriptive statistics for the variables and as observed, TAG measured as the effective tax rate which is the ratio of tax paid to pre-tax income has a mean value of 0.409 with a standard deviation of 0.231. The maximum and minimum values stood at 0.609 and 0 respectively. As observed, board size has an average value of approximately 9 which implies that the average board size for the sample is 9 members. There is still a lot of controversy in management literature regarding the appropriate number of individuals that should make up an ideal board size. The conclusions seem to be that a company should select a board size that is representative of all stakeholder interest. The mean for BDIND stood at 0.658 which is quite commendable with a standard deviation of 0.160. The maximum and minimum values stood at 0.782 and 0 respectively. The mean for BDOWN stood at 0.1458 with a standard deviation of 0.2015. The maximum and minimum values stood at 0.84 and 0 respectively. Looking at the control variables, we observe that FSIZE has a mean of 7.0452 with a standard deviation of 0.754 and with maximum and minimum values of 9.02 and 5.09 respectively.

Table 4.2: Pearson Correlation Result

Probability	TAG	BDIND	BDOWN	BDS	FSIZE
TAG	1				
BDIND	-0.0564	1			
Prob	0.1309	-			
BDOWN	0.0230	-0.0453	1		
Prob	0.5376	0.2247			
BDS	-0.0727	0.1405*	-0.1702*	1	
Prob	0.0515	0.000	0.000		
FSIZE	0.096*	-0.0584	-0.1833*	0.445*	1
Prob	0.0104	0.1176	0.000	0.000	

Source: Researcher's compilation (2021) using Eviews 10. * sig @ 5%

From table 4.2, the correlation coefficients of the variables are examined. However of particular interest to the study is the correlation between tax aggressiveness measures and the independent variables. As observed, BDIND is negatively correlated with TAG(r=-0.056) though not significant at 5% (p=0.1309). BDS is negatively correlated with TAG (r=-0.0727) and significant at 10% (p=0.052). The result thus suggests that increase in the board size is associated with increase in Tax paid/pre-tax income ratio and hence lower tax aggressiveness. BDOWN is positively correlated with TAG (r=0.0230) but though not significant at 5% (p=0.5376). The result thus suggests that increase in the board ownership is associated with increase in Tax paid/pre-tax income ratio and hence lower tax aggressiveness and vice-versa but again this is not significant and hence caution is exercised in drawing any association. Looking at the control variables, FSIZE is positively correlated with TAG (r=0.0955) and significant at 5% (p=0.0104).

Table 4.4: Kao Panel Cointegration Test

Within dimension	Weighted Statistic
Augmented Dickey Fuller	5.7644*
P-stat	0.002
Residual Variance	0.0549
HAC Variance	0.0082

Source: Researcher's compilation (2021) using Eviews 10. * sig @1%, ** sig @10%

In this study, the hypothesis of cointegration between all variables is tested using Kao cointegration tests. The result of the test indicates that the null hypothesis of no-cointegration is rejected at 5% and 1% significance levels. Hence, the empirical results support the hypothesis of cointegration among all variables. Now our co-integration results have confirmed that a long run relationship exists between the dependent and independent variables and thus we can proceed to specify the estimated relationship.

Table 4.5: Regression Result

	Aprori sign	Fixed effects estimates
C		0.7346* (0.0915) {0.000}
BDIND	+	-0.0318* (0.0126) {0.0116}
BDOWN	+	-0.0561* (0.0212) {0.0085}
BDS	+	-0.0042* (0.0015) {0.0036}
FSIZE	+	-0.0122 (0.0125) {0.3307}
Model Parameters		
R^2		0.619
Adjusted R^2		0.504
F-statistic		59.061
Prob(F-stat)		0.000
Durbin-Watson		1.8
Model Diagnostics		
χ^2_{Hetero} $\chi^2_{Serial/Corr}$ χ^2_{Norm} $\chi^2_{Hausman}$		0.621 0.095 0.074 11.526(0.022)

Source: Researcher's compilation (2020) using Eviews10. * sig @5%, ** sig @ 10% ( ) Standard error { } p-values

Table 4.5 shows the regression results examining the impact of corporate governance on tax aggressiveness. Board related governance variables and the control variables are first regressed on tax aggressiveness and the model diagnostics reveal that the $\chi^2_{Hausman}$ statistic (11.526) and p-value (0.022) indicates that the fixed effects model estimation is the appropriate estimation for the model indicating the existence of significant correlations between firm's specific disturbances and the beta's. The model parameters reveal that R^2 and Adj R^2 stood at 62% and 50.4% respectively which suggests that board structure governance accounts for about 92% of systematic variations in tax aggressive activity of the firms in the sample. The χ^2_{Hetero} p-value (0.621) implies the homoscedastic behaviour of the errors and the $\chi^2_{Serial/Corr}$ p-value (0.095) also reveals the absence of serial correlation. In addition, χ^2_{Norm} p-value (0.074) reveals that the series follow a normal distribution. The F-stat of 59.061 (p-value = 0.00) which is significant at 1% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model.

The fixed effects estimation results reveal that BDIND has a negative coefficient (-0.0318) and significant (p=0.0116) at 5%. The results suggest that an increase in the number of independent directors on the board results in a reduction in the tax paid/ pre-tax income ratio and this implies an increase in tax aggressive practices. Hence, the null hypothesis H1 is rejected. The independence of the directors provides effective control of managers as suggested by the agency theory. The independent non-executive directors are always viewed as a balancing force in the board; their existence of them shows a symptom of good corporate governance; shareholders are willing to authorize the management to be tax aggressive (Bhagat & Bolton 2008). Our finding is supported by that of Yeung (2010) Onyali and Okafor (2018) and Ogbeide and Obaretin (2018) but in contrast with Zemzem and Flouhi (2013) and Ying (2015)

BDS has a negative coefficient (-0.0042) and significant (p=0.0036) at 5%. The results suggest that an increase in the board size results in a reduction in the tax paid/ pre-tax income ratio and this implies an increase in tax aggressiveness. Hence, the null hypothesis H2 is rejected. Large boards are generally perceived as being less effective in the exchange of ideas, promoting coalition between board members (Firth, Fung & Ruin, 2007) 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. Our finding is consistent with Lanis and Richardson (2011) which report that the size of the board has a significant effect on the availability of tax aggressiveness. Similarly, Uniamikogbo, Bennee and Adeusi. (2019) showed that a positive and significant relationship exists between board size and tax aggressiveness. In contrast, Aliani and Zarai (2012) report the non-significance between the size of the board and tax aggressiveness in the American context. In the same vein, Odoemela, Ironkwe and Nwaiwu (2016) findings of study revealed that there is no significant effect between Board Size and Tax savings of Firms in Nigeria.

BDOWN has a negative coefficient (-0.0561) and significant (p=0.0085) at 5%. The results suggest that an increase in the level of board equity ownership results in a reduction in the tax

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paid/ pre-tax income ratio and this implies an increase in tax aggressive practices. Hence, the null hypothesis H3 is rejected. The costs and benefits of tax aggressiveness for firms may differ with the type of ownership structure. This accounts for one of the reasons Shackelford and Shevlin (2001) argue for ownership structure as a potential determinant of tax aggressiveness since corporate ownership is a 'core issue and determines the nature of the agency problems arising in the corporate environments. Our finding is in tandem with Demirguc-Kunt and Huizinga (2001); Egger, Eggert and Winner (2010); and Kinney and Lawrence (2000) that have documented consistently significant relationship between ownership and tax avoidance. On the contrary, Otieno (2014) found that ownership structure does not significantly influence tax avoidance as the effects.

5. Conclusion

As indicated earlier, the link between board structure and tax aggressiveness has been hypothesized by two key perspectives. Firstly, if aggressive tax strategies represent a firm's value maximizing activity as it entails a wealth transfer from the government to shareholders of a firm. Hence, shareholder value should increase with the efficacy of corporate tax strategies so long as the expected marginal benefit exceeds marginal cost and consequently, tax aggressive strategies could be allowable by corporate boards. On the other hand, from the perspective of agency theory, the role of agency costs arising from tax aggressiveness is put on the front burner. If the free cash flow from aggressive behaviour induces the threat of opportunism by managers and threatens alignment of managerial and shareholder interests, tax aggressiveness may be mitigated by corporate boards. These perspectives are examined in the study and the estimation results reveal that BDIND, BDS and BDOWN all have a negative coefficient and significant at 5% suggesting that an increase these board structure variables results in a reduction in the tax paid/ pre-tax income ratio and this implies an increase in tax aggressive practices. The study concludes that so long as the expected marginal benefit exceeds marginal cost and consequently, tax aggressive strategies could be allowable by corporate boards. Based on the findings of the study, the study recommends that increasing the number of independent directors is not sufficient to curtail tax aggressiveness. This may be so especially when aggressive tax strategies represent a firm's value maximizing activity as it entails a wealth transfer from the government to shareholders of a firm.

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