RELATIONSHIP BETWEEN BOARD SIZE AND TAX COMPLIANCE IN LISTED CONSUMER GOODS FIRMS IN NIGERIA

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ABSTRACT

This research investigated the relationship between board size and tax compliance in listed consumer good firms in Nigeria with 2016 to 2020 as the research period. The industry was selected due to its importance to the Nigerian economy and for not violating any tax law and regulations during the research period. Data were sourced from all the twenty-six firms in the industry on total number of board members as a proxy for board size and effective tax rate as proxy for tax compliance in line with existing literature. The data were analysed by descriptive statistics and random effect model, confirmed by Hausman's test. Finding showed that board size has a positive significant effect on tax compliance. The finding negated some existing works while it validated others. Other factors that affect tax compliance were identified. The study therefore recommended that while firms should ensure quality representation in their boards, government should on its own part, put on policies that will encourage tax compliance.
Keywords: Board size, consumer goods firms, effective tax rates, tax compliance, tax policies,

INTRODUCTION

Corporate governance is a system used by Board of Directors (the Board) to direct and control companies that appoint it. The role of shareholders in governance is to appoint competent auditors and directors who they feel will institute excellent governance structures (ICAEW, 2022). Part of the duties of the Board is to establish a company's vision, objectives and policies by providing appropriate leadership that makes the vision and objectives achievable; using proper management principles and providing timely reports of their stewardship to shareholders. Corporate governance can therefore be described as what the Board of a company sets as values and how it achieves them. It differs from the normal daily operational activities of management done by full-time executives. Attributes of corporate governance include gender equality/diversity, non-executive directors, management ownership, ownership structure, institutional ownership and board size.

Board size, which is the number of directors appointed by an organisation, significantly influences management policies and activities (Salaudeen & Abdulwahab, 2022; Jensen, 1993). It therefore becomes imperative for membership of large-sized boards to consist competent, autonomous professionals (Coles et al., 2008). Big firms are often associated with many directors with diverse backgrounds who assist in the management of such firms (Coles et al., 2008). While large-sized boards battle with the possibility of bottlenecks increases, increase in communication gap, interaction complexity, and coordination, small board size is associated with better practical tax management and compliance (Minnick & Noga, 2010; Yermack, 1996). The Board of Directors is held responsible by shareholders for any difficulty that arises from tax (Erle, 2008; Hartnett, 2008). The Board, therefore as part of its risk control mechanism, is directly involved in tax-related matters from planning to compliance (Landolf, 2006). It is the statutory responsibility of the Board to ensure dependable long-term returns to shareholders and at the same time offer quality products to the market. The Board also ensures compliance with all tax provisions and requirements in the business environment (Salaudeen & Abdulwahab, 2022; Dogan & Yildiz, 2013).

Nigeria’s business environment is regulated by certain requirements put in place to ensure effective business operations that will lead to sustainable economic development (Resolution Law Firm, 2021). Companies and Allied Matters Act (CAMA, 2020) is the main statute that stipulates and imposes various regulations and laws on companies. Some of such laws according to Adereti et al. (2011), are Value Added Tax, Company Tax, Petroleum Profit Tax (PPT), Capital Gains Tax, and Personal Income Tax. The provisions of these laws must be complied with. Tax compliance can be viewed from many perspectives. James and Alley (2002) see it as the spirit and willingness to abide by tax policies, rules, mechanisms and administration without the use of any form of force or coercion by relevant tax authorities (Alabede et al., 2011).

Tax compliance means abiding by government tax administration and policies. It involves ensuring that taxpayers (corporates and individuals) disclose their tax base, without cooking up accounting books and financial statements. It also involves correctly determining tax payable, timely filing of tax payable, up-to-date tax estimates, and not defaulting on the payment date (Alabede et al., 2011). Voluntary tax compliance is the acceptance of tax regulations and rules without being compelled to comply. Tax compliance entails corporate taxpayers, partnerships, and individuals submitting their tax returns yearly and paying appropriate taxes on time (Alabede et al., 2011; Pyikison, 2011; Scholz et. al., 1989 cited in Salaudeen & Abdulwahab, 2022).

The guidelines of Organization of Economic Cooperation and Development (OECD) on taxation emphasize compliance with tax laws by recognition and implementation of the intent of such law. The Board should be seen as making efforts to be current on matters relating to tax planning, tax strategy and tax compliance; and must avoid tax evasion and any other illegal acts that may adversely affect the corporate image of its company. Tax managers must, of necessity, plan corporate tax obligations effectively in order to maximise profits as failure to do so may result in financial scandals (Salaudeen & Abdulwahab, 2022). In Nigeria, the aim of corporate governance codes is to ensure that corporate bodies are absolutely transparent, responsible and accountable to shareholders and other interested parties like the government. Any company that fails to comply with the provisions of tax laws faces the possibility of being sanctioned by relevant tax authorities.

THEORETICAL FRAMEWORK

Tis study is based on agency theory. The focus of agency theory is on the agency situations and problems associated with them. Both managers (agents) and owners (principals) of firms may aim to achieve the same objectives. However, managers may some cases, not act in the best interest of owners (Salaudeen & Abdulwahab, 2022; Adereti et. al., 2011) due to conflict of interests. Conflict of interest that exist between management of a firm and its owners occur due to separation of control from ownership are important areas mostly focused in business research.

Though both parties (managers and shareholders) are subject to taxation, tax issues are hardly focused on theoretical principal-agent discussions. This is expected as there are many cases where tax related issues determine the agency relationships between principals and agent. A contractual relationship may be aborted where managerial performance is to be measured through profits. Profit before tax as a performance measure motivate managers to be involved in tax avoidance. This is more dangerous than profit after tax compensation which is highly dependent on tax legislation and changes in tax rates. Transfer prices, if used for internal control and co-ordination purposes, are affected by taxation as they are used by multinationals for taxable income allocation (Kourouxous, & Krenn, 2018). Issues of this nature may lead to conflicts of interest and affect tax planning and tax compliance.

HYPOTHESIS FORMULATION

The consumer goods industry is an important component of Nigeria's economy. The sector had an outstanding performance in 2021, outperforming the financial sector (Akamo, 2022) and also in the first quarter of 2022 (Oji, 2022). The total market capitalization of the sector in the second quarter of 2022 was 11.79% of total capitalization in NGX (Akamo, 2022). It contributed N116 billion to market capitalization, representing a 4.62% gain. Dangote Sugar Nigeria Plc and Honeywell Flour Nigeria Plc are two major companies in the consumer goods sector of Nigeria's economy. The two companies paid an average of 15.31% of their profits as tax in 2019. This increased to 31.6% in 2020 (106.5% increase) and 31.8% in 2021. Default or lateness in payment of tax was not reported during the period. Violation or non-compliance with any tax law or regulation was also not reported. These outstanding performances might be attributed to oversight functions of the Boards and managements on tax related matters.

Part of the responsibilities of the Board is to advise and monitor the activities and performance of top management in order to make sure that the interest of shareholders is not compromised (Abeysekera, 2010). Ensuring that the Board is properly composed so that it can be relied upon to play its roles in the proper functioning of the companies and compliance with relevant tax laws is thus essential. Board size improves collective decision making on tax compliance, provides avenues for better choices, and allows for better perspectives in order to achieve corporate objectives designed for the betterment of shareholders (Shamsudin & Noor, 2012; Hassan et al., 2003). Boards with small size aid effective management especially in small organisations as the internal processes of such organisations are directly known by owners who are likely to be board members.

Installation and monitoring processes of controls put in place are more effectively and efficiently done in order to ensure that corporate strategies align with corporate mission and objectives, tax related matters inclusive. Small board size is therefore positively related to tax compliance.

Large Boards on the other hand, are considered better in the area of increase in corporate performance (OECD, 2009; Hassan et al., 2003). Larger board size most often results in wider pool of diverse knowledge and expertise that lead to external linkages to organisational advantage. Availability of more diverse professionals and experts with different knowledge and skills can harnessed for better decision-making in the best interest of shareholders. Such decisions include tax planning and tax compliance (Adereti et al., 2011). These suggest that large board size is expected to have a positive relationship with tax compliance. Conflicts of interests, power play and other boardroom politics may lead to wrong tax compliance decisions, no matter the size of the board. This may lead to a negative relationship between board size and tax compliance.

Findings from previous studies in Nigeria on the relationship between board size and tax compliance are mixed. Some reported no relationship (Peter *et al.* 2021); insignificant relationship (Aliani & Zarai, 2012); significant positive relationship (Ogbeide & Obaretin, 2018; Soyinka, 2022) and negative relationship (Uchendu *et al.* 2016; Salaudeen & Abdulwahab, 2022). However, most of these studies did not focus on consumer goods firms in spite of their contribution to the national economy. Uchendu (2016) focused on quoted companies, Ogbeide and Obaretin (2018) and Salawu and Adedeji (2017) focused on the non-financial sector, while Emmanuel et al. (2019) surveyed listed companies on the Nigerian Exchange Group. Mahamud et al, (2020) studied conglomerates; Francis (2021) focused on listed consumer goods firms, but emphasized corporate governance mechanisms instead of board size. The work of Soyinka (2022) concentrated on consumer and industrial goods sector while Salaudeen and Abdulwahab (2022) focused on selected listed firms in Nigerian Exchange.

In other studies, Mappadang (2019) examined the relationship between corporate governance attributes and tax compliance and found that a positive significant relationship exists between board size and tax compliance. Resnick (2018) investigated tax compliance and governance representation by using survey research design across 11 markets in Lusaka, Zambia and found a positive influence of corporate governance on tax compliance. In Abdul-Wahab and Holland (2016) and Ahamed and Hamed (2015), it was found that Board size have a positive significant association with tax compliance.

Findings from recent research works in Nigeria on the relationship between board size and tax compliance are not significantly different from global findings. Salaudeen and Abdulwahab (2022) found that the relationship between board size and tax compliance is negative. Uchendu et al. (2016) studied corporate governance mechanism and tax companies of quoted Nigerian companies and found that board size is negatively associated with tax compliance. In Soyinka (2022), a positive and significant relationship between board size and tax compliance was reported; while Francis et al. (2021), Mahamud et al. (2020), Ogbeide and Obaretin (2018) and Salawu and Adedeji (2017) showed a positive significant association between board size and tax compliance.

Contrarily, Ahmed and Abdel-Meguid (2021) found that corporate governance influences tax compliance negatively; while Lakake (2020) reported that board size does not influence tax compliance. Chytis et al. (2019) sought to ascertain tax compliance, company characteristics and corporate governance in Greece from 2011-2015. Their findings showed that there was no significant association between board size and tax compliance. Board size was found not to significantly affect tax compliance in the study of Yuniarsih (2018). It therefore becomes necessary to extend the frontier of knowledge on board and tax compliance by examining the relationship between board size and tax compliance in listed consumer goods firms in Nigeria. The study thus hypothesizes that:

Ho_1: There is no significant relationship between board size and tax compliance in listed consumer goods firms in Nigeria.

METHODOLOGY

This study adopted simple regression analysis since only one independent variable was involved. The sample size consisted of all the twenty-six listed firms in the consumer goods firms in Nigeria as at 31 December, 2021. Consumer goods sector was selected due to its importance to the Nigerian economy and due to lack of non – tax compliance report on the industry. The research period of 2016 to 2020 was based on availability of data throughout the period and the need to up-date existing knowledge. Data were sourced from published financial statements of the companies.

Model Specification

It was established from the literature reviewed (Ahamed and Hamed, 2015; Ahmed and Abdel-Meguid, 2021; Lakake, 2020; Mappadang, 2019) that Tax Compliance (TCOM) is influenced by Board Size (BSIZE).

Thus:

TCOM = f (BSIZE)…………………………………………………… ……. (Equation 1)

$TCOM = \beta_o + \beta_1 BSIZE + \mu$……………………………………………………(Equation 2)

Where:

TCOM = Tax Compliance = Proportion of tax cash expenses to total pre-tax income (Chytis et al, 2019; Francis et al, 2021; Soyinka, 2022; Yuniarsih; 2018)

BSIZE = Board Size = Total number of directors on the board (Chytis et al, 2019; Francis et al, 2021; Soyinka, 2022; Yuniarsih; 2018)

$\beta_0 =$ Intercept of the regression line, regarded as constant

β_1 = Coefficient or slope of the regression line or independent variables

$\mu =$ Error term that represents other independent variables that affect the model but not captured.

A priori Expectation

$\beta_1 > 0$: suggest that a unit increase in board size leads to increase in tax compliance.

FINDINGS AND DISCUSSIONS

Table 1: Descriptive Statistics

	TCOM	BSIZE
Mean	0.229077	9.715385
Median	0.240000	10.00000
Maximum	0.940000	15.00000
Minimum	0.000000	4.000000
Std. Dev.	0.163950	2.883351
Skewness	0.962569	-0.054629
Kurtosis	2.068708	2.267425
Jarque-Bera	3.25592	2.971602
Probability	0.416832	0.226321
Sum	29.78000	1263.000
Sum Sq. Dev.	3.467489	1072.469
Observations	130	130

Source: Output from E-views analysis by the Authors (2022)

The means of both Tax Compliance (TCOM = 0.229077) and that of Board Size (BSIZE = 9.715385) are positive. The probability value of Jarque – Bera of TCOM is 0.416832, which not being statistically significant at 0.05 indicates that the assumption of normal distribution of the data has not been violated (Sanni et al., 2022).

The probability value of Jarque – Bera of BSIZE is 0.226321. It is not statistically significant at 0.5 significant level, meaning that the normal distribution assumption of the data has not been violated. The data on the two variables are therefore suitable to this research work.

Table 2: Correlation

	TCOM	BSIZE
TCOM	1.000000	0.293134
BSIZE	0.293134	1.000000

Source: Output from E-views analysis by the Authors (2022)

The result of correlation analysis in Table 2 shows a positive correlation of (0.293134) among the two variables. The problem of multi-collinearity does not exist since correlation is low, below 0.7 (Sanni et al, 2022).

Table 3: Unit Root Tests

	BSIZE		TCOM		
	Statistics	Prob	Statistics	Prob	Stationary
Levenin, Lin & Chu	-12.0366	0	-30.9424	0	1(1)
ADF - Fisher Chi-square	46.3707	0.0154	121.631	0	1(1)
PP - Fisher Chi-square	57.5727	0.007	132.412	0	1(1)

Source: Output from E-views analysis by the Authors (2022)

Three types of unit root tests were conducted as part of the pre-estimation tests to examine the stationarity of the data (Table 3). The tests are Levinin, Lin and Chu; Augmented Dickey Fuller (ADF) and Phillip Perron (PP). The results of the tests showed that all the variables are stationary at the first difference i.e. I (1). This means that the properties of the data like mean, variance and autocorrelation are constant throughout the research period (Sanni et al., 2022).

Table 4: Cointegration Test

Alternative hypothesis: common AR coefs. (within-dimension)

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-105.5320	1.0000	-0.927022	0.8230
Panel rho-Statistic	-2.674067	0.0037	-1.935348	0.0265
Panel PP-Statistic	-7.478755	0.0000	-4.907036	0.0000
Panel ADF-Statistic	-4.192673	0.0000	-6.437123	0.0000

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	0.849065	0.8021
Group PP-Statistic	-9.767428	0.0000
Group ADF-Statistic	-10.00540	0.0000

Source: Output from E-views analysis by the Authors (2022)

Pedroni Residual Cointegration Test
Series: TCOM BSIZE
Date: 06/16/22 Time: 15:16
Sample: 2016 2020
Included observations: 130
Cross-sections included: 19 (7 dropped)
Null Hypothesis: No cointegration
Trend assumption: No deterministic intercept or trend
User-specified lag length: 1
Newey-West automatic bandwidth selection and Bartlett kernel

It was necessary to ascertain whether a long run relationship exists between the data used for the variables. The results of the cointegration tests in Table 4 show eleven (11) probability values of seven (7) tests conducted. Eight (8) of the probability values are statistically significant. They are in the majority. The null hypothesis of no cointegration among the variables can therefore not be accepted (Sanni et al, 2022). This confirmed the existence of long time relationship among the variables.

Table 5: Results Of Regression Analyses: Pooled, Fixed Effect and Random Effect

Variable	Pooled Coeff. Std. Error. ( ) Prob.[ ]	Fixed Coeff. Std. Error. ( ) Prob.[ ]	Random Coeff. Std. Error. ( ) Prob.[ ]
Constant	0.067142 (0.048681) [0.1702]	0.234268 (0.127388) [0.0688]	0.094698 (0.066191) [0.1550]
BSIZE	0.016668	-0.000534	0.013832
Observations	130	130	130
R^2	0.085928	0.469331	0.034192
Adjusted R^2	0.078787	0.335375	0.026646
F – Statistics	12.03269	3.503635	4.531492
P- Value	0.000713*	0.000003*	0.035192*
Durbin Watson	1.308190	2.268407	1.804279

$*p<0.05*$

Source: Output from E-views analysis by the Authors (2022)

The results of three types of regression analyses done are presented in Table 5. They tests are: Pooled OLS, Fixed effect and Random effect. They were conducted because the data were panel. Hausman test was conducted to ascertain which of the models to select between random effect model or fixed effect model for this work.

Table 6: Result of Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.606701	1	0.2050

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BSIZE	-0.000534	0.013832	0.000128	0.2050

Source: Output from E-views analysis by the Authors (2022)

The P-value of the Hausman test in Table 6 is 0.205 and not being statistically significant at 0.05, confirmed random effect model to be most suitable for this work.

Findings from Table 5 on Random effect show that the coefficient of Board Size (BSIZE) is 0.013832. The coefficient of determination (R^2) is 0.085928 while p-value is 0.035192. Durbin Watson is 1.804279, which, close to 2, suggests the absence of autocorrelation.

Hypothesis Testing

The only hypothesis formulated for this is hereby represented for testing.

Ho_1: There is no significant relationship between board size and tax compliance in listed consumer goods firms in Nigeria.

Board size (BSIZE) has a relationship with tax compliance, judging from its coefficient of 0.013832 in Table 5. Its probability value (p-value) of 0.035192 makes it statistically significant at 0.05 level. The study therefore rejects the null hypothesis and concludes that Board Size (BSIZE) has a significant positive relationship with tax compliance.

DISCUSSION OF FINDINGS

Finding from this study confirmed a significant positive relationship between board size and tax compliance in listed consumer goods firms in Nigeria. This is in conformity with the works of Chytis et al., (2019); Kristina and Tracy (2018); Mahamud et al., (2020); Samaila (2019) and Soyinka (2022). It however negates the works of Ahamed and Mounira (2020); Minnick and Noga (2010) and Peter et al. (2021). Board size often indicates achievement of good corporate governance (Cheng & Countenay, 2016) and informs positive tax compliance. The number of board members in the listed consumer firms in Nigeria ranges between four and fifteen with the average of ten.

Aliani and Zarai (2012) considered a board membership of seven or eight to be small. Board size in the industry is therefore large. Small boards, according to Aliani and Zerai (2012) can lead to better performance while a board of more members may not be so effective. Uwuigbe and Ajayi (2011, cited in Soyinka, 2022) however argued that large boards are likely to be more effective on tax compliance due to collective expertise and experience that assists in better decision-making. This was corroborated by Mahmood *et al.* (2020) who posits that large boards draw on availability of multiplicity of expertise and skills in the board on managerial and financial terms. This is the case with listed consumer goods firms in Nigeria. That large boards can positively lead to tax compliance was corroborated by Cheng and Countenay (2016) and Mahmood *et al.*, 2020).

Tax compliance is affected by other factors apart from board size including high tax rates, complicated tax filing procedures, high compliance costs and non-receipt of tax notices, overbearing regulatory environment, numerous regulatory agencies, multiple taxation and bad tax policies (Ojeka, 2012). Difficulty and differences in interpretation of tax law may also seriously affect tax compliance (Soyinka, 2022). It was established by Ojeka (2012) that motivation for tax compliance can be achieved through tax reduction, tax holiday and provision and improvement of social amenities for the benefit of tax payers.

CONCLUSION AND RECOMMENDATIONS

The aim of any government is to raise revenue from tax to finance its activities. In doing this, government should put in place good and easily understood tax policies devoid of administrative bottle neck. Multiple taxation should be brought to the minimum if it cannot be totally removed. Government should also motivate tax payers. Such motivation can be in form of reduction of tax rates to align with high cost of production and living, granting tax holidays and ensure that the benefits of tax payment is felt by the public through provision and improvements in social amenities. Corporate bodies on their own part should ensure that their board members are those with knowledge of administration and finance which will readily be utilized for tax planning and compliance.

This study focused on determining the nexus between Board size and tax compliance in consumer goods firms in Nigeria. The statistical analyses conducted in the study revealed that board size has a positive significant effect relationship with tax compliance. The study therefore concludes that the extent to which consumer goods firms in Nigeria comply with regulations and requirement is a function of the size of the Board of the firm; and recommends that consumer goods firms in Nigeria should ensure quality representation in their Boards, and that government should on their part, institute policies that encourage tax compliance.

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