# EFFECT OF BOARD ATTRIBUTES ON TAX AVOIDANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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## ABSTRACT

The desire for shareholders to maximize wealth and that of government to maximize tax revenue are conflicting and aggressive tax system is the arrowhead of that conflict. In spite of corporate growth, the amount of tax manufacturing firms pay has been on the decline, and this has been a source of worry to government. Hence, this study was undertaken to examine the effects of board attributes (board size, board independence and board gender diversity) on tax avoidance of listed manufacturing firms in Nigeria, from 2018 to 2022. The study adopted correlational research design. The result showed that board size and board independence has a positive significant effect on tax avoidance, while board gender diversity had negative insignificant effect on tax avoidance. The study concludes that a large board size and increase in board independence increases tax avoidance practices of listed manufacturing firms in Nigeria, and recommends that listed manufacturing firms should priorities large board size and large number of independent directors if they want to continue with aggressive tax system.
**Keywords:** Board attributes, board gender diversity, board independence, board size, tax avoidance

## INTRODUCTION

Tax revenue constitute significant portion of Government income in Nigeria (FIRS, 2022). Tax describes compulsory contribution levied by the government on workers' income and business profits or added to the cost of some products and transactions in order to fund government spending (Lexicon, 2021). Despite the benefits it gives to government, tax always come as cost to firms and its shareholders through reduction of volume of profit and consequent decrease in dividend. To mitigate this cost, firms engage in tax avoidance practices to maximize shareholders wealth (Khurana & Moser, 2013). Tax avoidance practices, though legally allowed, should be discouraged because corporations are expected to discharge their civic duties of paying complete taxes, promptly.

Uchendu et al. (2016) noted that the prevalence of tax avoidance in Nigeria is largely connected to the implementation of self-assessment system of taxation, which give taxpayers the authority to independently calculate and deposit their taxes. The system is thus prone to be by-passed to reduce tax burden. Nahumury et al. (2018) states tax payers know the law, and capitalize on loopholes in the law to arrange their business in a way that enable them escape tax liability partially or entirely. Tax avoidance is also referred to as tax aggressiveness because companies aggressively reduce corporate taxes on income before tax (Huang et al, 2018). Taxpayers take unfair advantage of shortcomings in tax rules that allow them to find new ways to avoid tax payment that are within the limits of the law. This practices happen under the supervision of board of directors that are responsible for corporate planning and making decisions.

Tax avoidance becomes more pronounced among corporate entities when they are driven by shareholders wealth maximization (Abanum & Ebiaghan, 2022). A survey of eighty-five non-financial firms showed

that 65% engage in tax avoidance activities (Ogbeide, 2017). However, the extent of tax aggressiveness vary across industry and is influenced by industry specific attributes. Therefore, the issue determinants of tax aggressiveness has remained contentious.

Nigeria has had significant losses as a result of illicit financial flows, and tax aggressiveness is considered one of the channel for such (Abiodun, 2023). Speaking in a symposium, Professor Bolaji Owasanoye, the Chairman of Independent Corrupt Practices and Other Related Offences Commission (ICPC) aver that "any agreement or transaction that takes resources from a country but gives little or nothing in return or takes back in subtle ways what is pretended to be given cannot be said to be a pro-development agreement. Nigeria like many African countries loses huge amount of resources to tax evasion, trade-mis-invoicing, and abusive transfer pricing." The Thabo Mbeki Panel on illicit financial flows from Africa found that commercial IFFs arise from business-related activities such as "abusive transfer pricing, trade mispricing, mis-invoicing of services and intangibles, and using unequal contracts, for purposes of tax evasion (Abiodun, 2023).

The developed economies (China, USA, Germany, France, United Kingdom, amongst others) have comprehensively looked at the problem at hand (Wang et al., 2020, Desai & Dharmapala, 2009). However, literature dearth exist in developing economies, and the manufacturing sector in particular. The sector is significant to the growth of the nation as such, research on issues that will improve the sector becomes sacrosanct. For these reasons and the practical issues raised with respect to aggressive tax, this study seeks to contends that board characteristics have effects on tax avoidance since tax avoidance happens with the knowledge of board of directors. The study therefore, seeks to examine the effect of Board attributes (size, independence, diversity, etc.) on tax avoidance of listed manufacturing firms in Nigeria.

## LITERATURE REVIEW

### Tax Avoidance

The steady decline in tax revenue to the Federal Government of Nigeria (FGN) in the past decade has been an issue of scholarly debate (FIRS Report, 2022). Firms continuously remit smaller amount of tax thus shortchanging the FGN. This trend has invoked increased scrutiny and criticism by governments, the media, aid groups as well as the general public. Tax avoidance is a blessing (to the firms) and a curse (to the government) (Oyeleke et al., 2016). Tax avoidance grant companies access to more funds and significantly shrink government revenue, and predispose government to cash crunch that affect service delivery to the citizenry.

Marin (2023) define "tax avoidance" as the practice of exploiting loopholes in tax laws – that is, abiding by the letter of the law but violating its spirit – to avoid tax liability." Basically, it uses complex tax structure to exploit the advantages of tax laws between and amongst countries to artificially reduce taxable income. Tax avoidance is legal unlike; tax fraud, harmful tax practices and tax evasion but its legality undermine national tax systems' fairness and effectiveness and by extension, distorts the market.

Tax aggression is known by other terms, including tax avoidance, tax management, tax planning, and tax sheltering. It describe the strategy of lowering firm's tax burden by optimizing the effective tax rate. Aburajab et al. (2019) asserts that tax avoidance and legal tax savings are aggressive tax planning behaviors that are generally intended to lower tax liabilities and increase after-tax earnings per share and cash available for shareholders. Aggressive tax system can come in the form of; debt shifting, strategic location of intellectual property rights and intangible assets, transfer pricing and tax treaty shopping (Marin, 2023).

### Board Attributes

Usually, shareholders need agents that best protect their wealth maximization interests. Board of directors are thus elected to that represent shareholders and assume strategic management responsibilities. Effective

tax management is one of such strategic management they are involved in. Managing taxes require laid down philosophy determined by the board (Aburajab et al., 2019). The Code of Corporate Governance (2018) provides a mixture of Executive and Non-Executive Directors headed by a Chairman, and sets upper and lower limits of persons that should constitute the board. A Board of directors of often described in terms of its attributes, which are assumed to play significant roles in planning and decision-making. In this study, Board size, Board independence and Board gender diversity are focused on, as Board attributes that can play key roles in company's tax avoidance practices.

**Board Size and Tax Avoidance**

The constituent of optimal board size remains a subject of debate, however, the number of persons that constitute the board is expected to improve monitoring effectiveness as well as advisory capacity of the board. Isik and Ince (2016) notes that a large board provide the requisite manpower with verse tax planning knowledge and experience; and therefore, provide the enabling environment for tax avoidance to thrive. On the other hand, it is argued that a small board often constrain activities of directors geared towards tax avoidance. This argument is consistent with the position of AbdulWahab and Holland (2012) that a small board may not have the technical grit to handle tax planning effectively, hence, tax aggressiveness may reduce to the barest minimum.

Sylvester and Nkechi (2022) examined corporate board attributes and tax aggressiveness of listed non-financial firms in Nigeria for a period of 10 years, covering from 2012 to 2021. Finding revealed that that board size had positive and significant effects on tax aggressiveness of listed non-financial firms in Nigeria. This connotes that, increase in the number persons on the board helps in tax aggressiveness by firms. The study recommended more inclusion of directors on the board in non-financial as they seem to have influence on choice of tax management strategy that contributes towards tax aggressiveness.

Similarly, Khaoula and Moez (2019) found small board size to be positively and statistically impacting on tax aggressiveness of firms. Small size of the board can improve the quality of overall company performance so that a small board of directors can reduce the level of tax rates in other words increase tax planning. In the vein, Hoseini et al. (2019) found that firms with a larger board of directors to be more associated with more tax avoidance and concludes that large boards give room for more members to exploit tax loopholes and capitalize on them to avoid tax as lawfully as possible.

Further, Boussaidi and Hamed (2015) reports that Board size significantly impacts on tax avoidance, inferring that large board tends to increase incidences of tax whereas smaller board strengthens good tax management. Large boards benefit more from the diversity of its directors; skills, expertise and experience over time of operation on the board. Aburajab et al. (2019) explored corporate governance characteristics as a Stimulus to Tax Management for a period of 11 years and found no significant effect of board size and tax aggressiveness. To this author, the size of a board does not matter in tax aggressiveness.

In lieu of the forgoing, we hypothesize that:
**$HA_1$**: Board size has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

**Board Independence and Tax Avoidance**

A Board is considered independent when its members have no pecuniary interest with in firm or is not involved with the firm of a material nature (Abanum & Ebiaghan, 2022). An Independent Board can include any non-employee members as well as any members that have distinguished themselves on their own (accountant, consultants and lawyers amongst others). Lanis and Richardson (2011) asserted that, appointing higher percentage of outside directors to the board provides the necessary atmosphere for effective monitoring and discharge of duties by the board.

These experienced persons are already versed in tax planning laws in their chosen field and they will apply that knowledge into use to help organizations in achieving its goal of maximizing shareholders wealth.

Minnick and Noga (2010) noted that, independent directors possesses managerial acumen to reinforce tax management. Conversely, Zachariah et al. (2020) asserted that, highly independent board reduces tax aggression and the authors attributed the findings to lack of organization knowledge exhibited by the independent directors as such, they may find it difficult to circumvent the loopholes in the law for tax aggressiveness.

Sylvester and Nkechi (2022) examined corporate board attributes and tax aggressiveness of 114 listed non-financial firms in Nigeria and found that board independence had positive significant effects on tax aggressiveness. This connotes that increase in the independence of the board helps in tax aggressiveness by firms. The study recommended more inclusion of independent directors on the board in non-financial as they seem to have influence on choice of tax management strategy that contribute towards tax aggressiveness.

Salihu and Kawi (2021) examined effect of board attributes on corporate tax avoidance of top 100 Malaysian companies based on FTSE tradable index. The study used secondary data to analyse the panel data using Generalized Methods of Moment (GMM). The regression result showed that board independence positively and significantly impact tax avoidance. It connotes that, highly independent board increases tax aggressiveness for firms and this help in having more funds for expansion and growth. However, Zachariah et al. (2020) found that, board independence had significant negative effect on tax planning. This implies that, highly independent board helps in curbing tax aggressiveness which ensure mitigation of tax avoidance by firms. When tax avoidance practices are mitigated, government will have more resources to fund development.

Relatedly, Aburajab et al. (2019) studied board characteristics and tax aggressiveness of 140 Jordanian firms for a period of 5 years covering 2013 to 2017. The regression result showed a negative significant relationship between board independence and tax aggressiveness. This suggests that more independent board help firms to actualize tax aggressiveness. Similarly, Onatuyeh and Odu (2019) in a study on 49 manufacturing firms listed on the Nigeria Stock Exchange (NSE) that span 5 years found that board independence exert negative significant impact on tax aggressiveness of manufacturing firms in Nigeria.

Consequent on the foregoing evidence in literature, we hypothesize that:
**$HA_2$:** Board independence has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

**Board Gender Diversity and Tax Avoidance**
Board gender diversity connotes the mix of female and male directors on the board. Because of gender differences, it is expected for a particular kind of gender to think and behave alike and so, the activities of this gender if they dominate the board will incline towards their conceived notion (Oyeleke et al. 2016). Adams and Ferreira (2009) noted that, women are associated with better communication among board members, and better board participation, like attending board meetings. For this reason, they asserted that, women will be more inclined to achieving aggressive tax system compared to their male counterpart.

Mhamid and Hachana (2010) argued that Board diversity complicates the process of tax decision as such, fiscal problems will not be resolved immediately. However, Nwezoku and Egbuike (2020) argued that, a board with large female representation reduces tax aggressiveness in company. Abanum and Ebiaghan (2022) explored effect of corporate governance attributes on tax aggressiveness of quoted non-financial firms in Nigeria, using secondary data and adopting an ex-post facto research design. The result showed that board gender diversity had significant positive effect on tax aggressiveness. This means that inclusion of more women in the board creates opportunities for tax aggressiveness compared to when males dominate the board.

However, Ogbeide and Obaretin (2018) reported that board gender diversity had significant negative effect on tax aggressiveness. High female representation on the board ensure that tax avoidance practices are eschewed from, hence more revenue for the government. In Onatuyeh and Odu (2019) it was revealed that board gender had no statistical significant effect on tax avoidance. Similarly, Zachariah, *et al.,* (2020) documented that, board gender diversity had positive but insignificant effect on tax planning in listed non-financial companies in Nigeria.

In view of the foregoing, we hypothesize that:

**$HA_3$:** Board gender diversity has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

**Theoretical Framework**

Agency theory and Hoffman's tax avoidance theory are adopted as baseline theories for this study. Agency theory look at the principal-agent relationship, where the principal (shareholders) delegates duties to agents (board of directors) to act in the best interest of the principal (paying minimum tax possible under the law). The directors are expected to work to satisfy the owners by ensuring they have maximum profit possible by lawfully reducing tax liabilities. Based on agency theory, managers may engage in tax avoidance in order to seek their own interests, and they will occupy the company resources from tax savings and damage the interests of other shareholders. It is the duty of directors to act as watchdog of shareholders by ensuring that managers do not take any opportunistic advantage at the expenses of owners. Hoffman (1961) proposed the tax planning theory that supports firms redirecting corporate returns to other firms other than flowing to government authorities. The theorist argued that tax avoidance seeks to divert cash, which would ordinarily flow to tax authorities, to the corporate entities. It connotes that, firms should engage in tax avoidance by channeling the resources in boosting other ventures so as to have high return.

## METHODOLOGY

This study on Board attributes and tax avoidance of listed manufacturing firms adopted an ex-post facto and correlational research design. In conformity with the research design, data used were collected from secondary source only. Specifically, data were sourced from published financial statements of manufacturing firms for the periods starting from 2018 to 2022. It was augmented with the financial information of manufacturing firms as contained in the Nigeria Exchange Group (NGX) fact book. The population of the research comprised 63 manufacturing firms listed on the Nigeria Exchange Group as at 31, December 2022. As at that date, the firms were classified into 7 sub-sectors (agriculture, conglomerates, construction/real estates, consumer goods, health care, industrial goods, and natural resources). The study filtered the firms based on the following criteria:

1) Firms to be selected must be trading on the Nigerian Exchange Group before the base year of the study.
2) Firms to be selected must not be delisted from the Nigerian Exchange Group for the period of the study.
3) Firms to be selected must have complete information for the period under review.

Upon the application of the above filters, twenty-one firms were selected as sample for the study

**Table 1: Measurement of Variables**

| Variables | Abbreviations | Measures used | Expectations |
|---|---|---|---|
| **Dependent Variable** | | | |
| Effective Tax Rate | ETR | Total tax expense/pre-tax income (Marin, 2023; Aburajab, *et al.,* (2019) | |
| **Independent Variables** | | | + |
| Board Size | BS | Total number of directors that composed the board (Sylvester & Nkechi, 2022; Khaoula & Moez, 2019) | |
| Board Independence | BIND | Number of independent directors sitting on the board to total number of directors that compose the board (Abanum & Ebiaghan, 2022; Zachariah, *et al.,* 2020) | + |
| Board Gender Diversity | BGD | Number of female directors on the board to total number of directors that compose the board (Onatuyeh & Odu, 2019; Ogbeide & Obaretin; 2018) | + |

**Model Specification**

The model for this study was a panel regression model because the study examined effects of board attributes on tax avoidance of listed manufacturing firms in Nigeria. The panel data model was succinctly presented as:

$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \ldots\ldots\ldots \beta_n X_{nit} + \mu_{it}$ - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - (1) The second model for this study explain the relationships between board attributes and effective tax rate of listed Manufacturing firms in Nigeria as depicted in equation 2

$ETR_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BIND_{it} + \beta_3 BGD_{it} + \varepsilon_{it}$ - - - - - - - - - - - - - - - - - - - - - - - - - - - - (2)

Where:
ETR = effective tax rate
$B_0$-$\beta_3$ = regression co-efficient or parameters.
BS = board size
BIND = board independence
BGD = board gender diversity
$\varepsilon$ = Error term
it = panel data used in the study
i = cross sectional data &
t = time series data

## RESULTS AND DISCUSSIONS

**Table 2: Descriptive statistics on the dependent and independent variables**

| Variable | OBS. | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| ETR | 105 | 0.46433 | 0.9638661 | -0.1637642 | 6.842852 |
| BS | 105 | 10.42857 | 3.128213 | 4 | 18 |
| BIND | 105 | 0.6229364 | 0.2071319 | 0.0769231 | 0.9090909 |
| BGD | 105 | 0.2018088 | 0.1237722 | 0 | 0.5000 |

Table 2 presents details of descriptive statistics on the dependent and independent variables of the study. The data set contained a total of 105 observations for a period of 5 years across 21 listed manufacturing firms listed on the Nigerian Exchange Group. The minimum value of -0.1637642 showed the loss presented in the financial report for a sampled firm while the maximum value 6.842852. The mean value for effective tax rate shows that the average disparity between effective tax rates for all firms in the industry is 0.46433

with a deviation from the mean of 0.9638661. This means that on the average, the effective tax rate is 46% during the period. The least persons that formed a board stood at 4 while 18 was the highest number for the study period across sampled firms. The mean value of 10.42857 showed that, the average boards size comprised of 10 persons. The standard deviation of 3.128213 indicates that there is variation in the size of board members for the sampled firms.

The least independent board had 7% of outsider director while most independent board had 91% outsider director. The average independence across the sampled firms stood at 62%. This suggests that across the sampled firms, the board is highly independent since it crossed 50%. Some boards had no woman representation that is why we had a minimum of 0. 50% for the maximum representation across sampled firms for the period. The mean value for board diversity is 0.2018088 indicating the averagee number of board diversity while the deviation from the mean is 0.1237722, suggesting that on the average, women representation on the board is 20% which is less than 50%. As such, women constitute an insignificant part of the board and may not influence tax aggressiveness.

**Table 3: Correlation matrix**

| Variables | ETR | BS | BIND | BDIV |
|---|---|---|---|---|
| ETR | 1.0000 | | | |
| BS | 0.0293 | 1.0000 | | |
| | 0.0078** | | | |
| BIND | 0.0145 | 0.1615 | 1.0000 | |
| | 0.0834* | 0.0997* | | |
| BGD | -0.0520 | -0.1734 | -0.0615 | 1.0000 |
| | 0.5982 | 0.0770 | 0.5330 | |

Note: * Denotes significance level at 10%
** Denotes significance level at 5%
*** Denotes significance level at 1%

Table 3 showed the correlation between the dependent variable (tax avoidance) which was proxied by effective tax rate (ETR) and the independent variables (board size [BS], board independence [BIND], and board diversity [BGD]). Board size had a positive relationship with effective tax rate. The correlation coefficient of 0.0293 is significant at 1% level of significance. This relationship implies that as board size increases, effective tax rate increases for the study period.

Board independence also had a positive relationship with effective tax rate for the sampled firms across the study period. The correlation coefficient of 0.0145 is significant at 1%. This indicates that increase in board independence leads to a tendency of engaging in aggressive tax systems. There was a negative association between board gender diversity and effective tax rate for the period. The correlation coefficient of -0.0520 was not significant at any of the significance level (1% 5% &10%).

**Table 4: Regression results and post estimation tests**

| ETR | Coefficient | T | P-value | VIF | 1/VIF |
|---|---|---|---|---|---|
| BS | 0.0688827 | 2.19 | 0.008 | 1.06 | 0.747103 |
| BIND | 1.443654 | 3.08 | 0.000 | 1.03 | 0.868794 |
| Bdiv | -0.3744953 | -0.48 | 0.635 | 1.03 | 0.872752 |
| Constant | 2.701671 | 5.97 | 0.000 | | |
| Mean VIF | | | | 1.04 | |
| $R^2$ = 0.3267 | | | | | |
| Adj-$R^2$ = 0.2857 | | | | | |
| F statistic = 5.11 | | | | | |
| Prob > F = 0.0002 | | | | | |
| **Hettest** | | | | | |
| $Chi^2(1)$ = 6.26 | | | | | |
| Prob. = 0.6131 | | | | | |

**Post estimation tests**

The study conducted multicollinearity test using Variance Inflation Factor (VIF) and the Tolerance Value (TV). All the VIF values are less than 10 and the tolerance values are greater than 0.1 which indicates that there is no evidence of multicollinearity among the independent variables. This is in consonant with the rule of thumb as posited by Gujarati (2004). When VIF value is more than 10 and/or when the tolerance value is less than 0, then there is a strong indication of the presence of multicollinearity. Breusch-pagan's test for heteroskedasticity was conducted. The result showed a $chi^2$ value of 6.26 with a probability of 0.6131 which is not significant at any of the level (1%, 5% & 10%). This implies that there is no heteroskedasticity and as such, the study can rely on the OLS regression.

**Regression Analysis**

Ordinary Least Square regression was relied upon for this analysis to ascertain the effect of board size, board independence and board gender diversity on tax avoidance (effective tax rate) of listed manufacturing firms in Nigeria. The F-statistic has a value of 5.11 with a probability of 0.0002, which is statistically significant at 1%. This is an indication that the model is fit and the interpretation from it is valid and reliable. The $R^2$ which is the coefficient of determination had a value of 0.3267, thus indicating that the variation of 32% on ETR was as a result of change in Board size, Board independence, and Board gender diversity while the remaining 68% was as a result of factors not captured in the model.

Board size has a T-value of 2.19 and a coefficient value of 0.0688827 which is statistically significant at 5% (0.008). This signifies that board size significantly influence tax avoidance of listed manufacturing firms in Nigeria. It connotes that, increase of board size by 1 member will increase tax avoidance by listed manufacturing firms in Nigeria. Large board comprises of many individuals as such, financial expert may be much and they can help shareholders to maximize their shareholding. The finding is consistent with that of of Onatuyeh and Odu (2019). On the basis of this findings, we accept the alternate hypothesis that Board size has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

Board independence of listed manufacturing firms measured by the total number of independent directors sitting on the board to the total number of members of the board had a T-value of 3.08 and a coefficient of 1.443654 which is statistically significant at 1% (0.000). This implies that, independence has a positive and significant effect on tax avoidance of listed manufacturing firms in Nigeria within the study period. The more independent members of the boards are, the higher the chances for firms to engage in tax aggressiveness. This can be explained by the fact that, independent direct possesses little knowledge about the firms and the dependent directors on the board can use that advantage to engage in aggressive tax system. The finding is inconsistent with the findings of Zemzem and Ftouhi (2013). On the basis of this finding, we accept the alternate hypothesis that Board independence has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

Board gender diversity had a T-value of -0.48, coefficient of -0.3744953 and a P-value of 0.635 which is statistically insignificant. This shows that board gender diversity has a negative coefficient and is insignificant in explaining and predicting tax avoidance of listed manufacturing firms in Nigeria within the study period. The result is in tandem with those of; Zachariah, *et al.,* (2020) and Onatuyeh and Odu (2019). On the basis of this, we accept the alternate hypothesis that Board gender diversity has significant effect on tax avoidance of listed manufacturing firms in Nigeria.

## CONCLUSION AND RECOMMENDATIONS

The study examined effect of board attributes on tax avoidance of listed manufacturing firms in Nigeria for a period of 5 years starting from 2017 to 2021. Secondary data were used for the correlational research and ex-post facto study. The proxy for the tax avoidance used is effective tax rate while the proxy for the independent variables are; board size, board independence and board gender diversity. Board size and board independence were found to be positively and significantly influencing tax avoidance by listed manufacturing firms in Nigeria while board gender diversity had not negative but insignificant effect on tax aggressiveness.

From a practical perspective, higher and independent board helps organization in actualizing the wealth maximization of shareholders. In respect of theory, the findings of the study provide empirical support regarding the agency view of tax avoidance as the board members are agents of the shareholders to protect them from opportunistic managers. Therefore, the study concludes that, board size should be increased and it should be highly independent if they want to continue with the aggressive tax system.

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