



## Corporate Governance Attributes and Tax Aggressiveness of Listed Industrial Goods Companies in Nigeria

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### Abstract

*This study investigated the effects of corporate governance on tax aggressiveness in Nigeria. The study was done using fifteen (15) companies drawn from healthcare, natural resources and construction/real estate from 2013–2022. Ex-post facto design was used and secondary data (board remuneration, board gender diversity, board independence and board ownership structure) were obtained from the yearly audited annual reports of the selected companies. To account for unobserved heterogeneity, endogeneity and serial correlation problems linked with panel data, the generalized method of moments was employed in testing the relevant hypotheses. The study demonstrates that corporate governance significantly influences tax aggressiveness. It is suggested that executives or the board's remuneration should be increased in order to further influence tax aggressiveness. Also, board ownership structure was found to negatively affect tax aggressiveness; hence there is the need for companies to reduce shares of CEOs in such a way that it does not prevail over total number of directors' shares. This would enable companies attract additional directors with more resources that can influence tax aggressiveness.*

**Keywords:** Corporate governance, Board remuneration, Board independence, Board gender diversity, Board ownership structure.

### Introduction

Corporate governance refers to policies and procedures adopted by firms to achieve certain sets of objectives, corporate missions and visions with regard to different stakeholders. Corporate governance influences good corporate management of organizations including the reduction of tax liability (Abdul-Wahab, 2019). Good corporate governance must be established to safeguard stakeholders in the company, maintain variables for control, and prevent collapse and a protracted economic downturn in pursuing commercial objectives. Corporate

governance is the process by which stakeholders hold firm management responsible for their stewardship to restrain corporate excesses (Al-Farooque, Buachoom & Sun, 2020). Corporate governance 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.

The term tax aggressiveness is used to describe a variety of acts taken by people and businesses to minimize their tax obligations. This can include doing things that are

technically lawful but skirt the legal boundaries set by the tax code, like taking advantage of tax regulations and deductions to reduce taxable income (Lanis, Richardson & Taylor, 2017). Aggressive tax behaviour can encompass a broad scope, from lawful tax planning to dishonest tax avoidance. A company may choose to take a more tax-aggressive stance to boost profits, reduce its tax liability, or take advantage of tax breaks and rebates (Oyeleke, Erin & Emeni, 2016). The payment of taxes is the responsibility of both individuals and corporations.

When a company takes advantage of legitimate tax laws to lower its tax burden, it is referred to as being tax aggressive (Salawu & Adedeji, 2017). Tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state (Okoye & Akenbor, 2010). The key objective of this study is to examine the effect of corporate governance on tax aggressiveness in Nigeria using four variables; gender diversity, board size, CEO duality, and ownership structure to proxy corporate governance and effective tax rate was used to proxy tax aggressiveness in Nigeria. However, the precise objectives are to: investigate the effect of gender diversity, board independence, board ownership, and board remuneration on tax aggressiveness in listed industrial goods companies

Corporate governance influences good corporate management of organizations including the reduction of tax liability. Onyali and Okafor (2018) observe that corporate governance attributes is interrelated with board size, managerial ownership, board independence, ownership concentration, board diversity, audit committee size, amongst others. Olayinka and Francis (2016) Pniowsky, (2018) found a positive relationship between corporate governance and tax avoidance.

To this effect, the following hypotheses were formulated:

H<sub>01</sub>: There is no significant link between board gender diversity and tax aggressiveness of listed industrial goods companies

H<sub>02</sub>: There is no significant link between board Independence and tax aggressiveness of listed industrial goods companies

H<sub>03</sub>: There is no significant link between board ownership structure and tax aggressiveness of listed industrial goods companies

H<sub>04</sub>: There is no significant link between board remuneration and tax aggressiveness of listed industrial goods companies

## **Literature Review**

### **Corporate Governance**

Most definitions of corporate governance emphasize a mechanism aimed at mitigating issues arising from the separation of ownership and control. Uwuigbe, Olusanmi, and Iyoha (2015) describe corporate governance as a system encompassing various practices and institutions, such as accounting standards, financial disclosure rules, executive compensation guidelines, and board size and composition, all designed to safeguard the interests of a corporation's owners. Uniamikogbo Bennee and Adeusi (2019) define corporate governance as the system through which organizations are guided and managed. The board's duties are overseeing management, ensuring the smooth operation of the business, setting strategic objectives, providing leadership to achieve them, and reporting progress to shareholders. Boards are subject to relevant laws and regulations.

In Nigeria, the legal and regulatory framework for corporate governance compliance is established through a blend of

voluntary and mandatory measures, including the Companies and Allied Matters Act 2015 as amended, the Investment and Securities Act 2017, the Securities and Exchange Commission (SEC) 2011, the Corporate Governance Code, and various industry-specific governance codes. The committee led by Atedo Peterside on corporate governance, commissioned by the Securities & Exchange Commission in Nigeria, led to the publication of the 2015 SEC Corporate Governance Code and the current revision of the SEC Code from 2011. Regulators have issued industry-specific codes for companies under their jurisdiction, such as the CBN Codes 2017 for banks and other financial institutions, PENCOM Codes 2016 for pension fund administrators, and NAICOM Codes for insurance companies.

#### - **Board Gender Diversity**

Considering that women tend to be more risk-averse and cautious than men, the gender composition of a firm's board of directors is believed to impact corporate policies and outcomes. Odoemela, Ironkwe and Nwaiwu (2016) suggest that companies with female directors exhibit lower absolute discretionary accruals or earnings management, attributed to their conservative nature compared to male counterparts (Adams & Ferreira, 2018). Nonetheless, this may not universally apply. Irawati, Maksum, Sadalia and Muda (2019) found evidence indicating that gender diversity on the board can reduce tax optimization. Thus, board gender diversity may either decrease or increase tax aggressiveness. Consequently, the study proposes the hypothesis: Board gender does not significantly influence tax aggressiveness.

#### - **Board Independence**

Granting boards of director's autonomy can establish efficient control mechanisms. External members, in particular, can ensure both competence and independence

simultaneously (Onyali & Okafor, 2018). It is noteworthy that a higher proportion of outside (non-executive) directors on the board is associated with a reduced likelihood of tax aggressiveness (Bhagat & Bolton, 2016). However, this may not always hold true in practice. Therefore, the study posits the hypothesis: Board independence does not significantly influence tax aggressiveness.

#### - **Board Ownership**

The ownership structure refers to the institution or organization that predominantly holds a company's shares (Aguilera, Desender & de Castro, 2012). It serves as the primary factor influencing shareholder wealth and the overall effectiveness of business operations. A well-structured ownership model ensures that no single authority can exert undue influence over the company's decisions solely based on ownership, as all shareholders have the opportunity to vote on significant matters crucial to the firm's functioning.

Consequently, this minimizes conflicts between owners and their representatives, thereby enhancing business performance (Al-Farooque et al., 2020). Ownership structure can be categorized as public, private, institutional and managerial ownership (Kiabel & Akenbor, 2014). For the purpose of this study, institutional and managerial ownership are focal points of analysis.

#### - **Board Remuneration**

Board remuneration refers to the compensation and benefits provided to members of a company's board of directors for their service and contributions to the organization. This compensation package typically includes various components such as retainer fees, meeting fees, committee fees, equity-based compensation, annual incentive awards, benefits, and director insurance (Zemzem & Khaoula, 2013). Effective board

remuneration practices are crucial for attracting and retaining qualified directors, aligning their interests with those of shareholders, promoting strong corporate governance, and driving long-term value creation for the company.

### **Tax Aggressiveness**

Tax Aggressiveness, also referred to as “Tax Sheltering” or “Tax Planning,” has been defined in various ways by scholars. Hoffman (1961) defines tax aggressiveness as “the taxpayer’s ability to organize his financial affairs in such a way as to suffer a minimum tax liability.” Generally, tax aggressiveness is understood as the practice of arranging one’s financial affairs to defer, reduce, or eliminate the amount of taxes owed to the government (Pniowsky, 2018). In countries like Nigeria, Canada, the US, and many others, tax aggressiveness is permissible only when it conforms to the regulations outlined in the Income Tax Act (ITA).

Moreover, to minimize tax liability within the framework of regulatory guidelines, tax aggressiveness is acknowledged as the preferred strategy. According to Fallan, Hammervold, and Gronhaug (1995), tax aggressiveness can be achieved by adjusting tax rates across different tax environments and business activities, as well as by utilizing certain tax incentives provided for in tax laws. Additionally, Hoffman (1961) emphasizes the distinction between tax evasion and tax avoidance to gain a clear understanding of the concept of tax aggressiveness.

Failing to differentiate between these two concepts could result in questioning the permissible limits of tax aggressiveness, potentially leading to severe legal consequences such as penalties for non-compliance with tax regulations. Therefore, it can be concluded that the key terms to delineate the difference between tax avoidance and tax evasion are “legal” and “illegal” (Abdul-Wahab, 2019).

### **Theoretical Framework**

Agency theory comprises a set of principles governing the management of contemporary corporations, particularly those with numerous shareholders. In such corporations, individuals possessing relevant professional expertise are entrusted to manage and direct collective capital for future gains, regardless of share ownership. Originating from economic theory, agency theory was initially formulated by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). This theory offers valuable insights into scrutinizing the relationship between owners and managers, especially in cases where managers lack ownership of corporate resources.

The crux of agency theory revolves around entrusting resources to agents expected to produce both qualitative and quantitative reports, aligning business owners’ and managers’ interests to achieve organizational goals. According to Kiel and Nicholson (2013), agency theory entails separating control from ownership, indicating that professional managers oversee a firm on behalf of its owners. It suggests that agents possess more information than principals, potentially hindering the principal’s ability to monitor whether the organization operates in their best interest. Managers, endowed with superior knowledge and expertise compared to owners, may prioritize personal interests over shareholders’ interests.

## Methodology

This study used quantitative method by means of cross-sectional design covering a period from 2013-2022. It entails a study of publicly listed companies on the floor of the Nigerian Exchange Group (NGX), which were drawn from the Healthcare, Natural Resources and Construction/Real Estate sectors. The variables comprised four corporate governance variables (board gender diversity, board independence, board ownership structure and board remuneration) and one (1) tax aggressiveness variable – effective tax rate. Thus, the independent variables are corporate governance variables while the dependent variable is tax aggressiveness.

The population of this study comprised all publicly listed Healthcare, Natural Resources and Construction/Real Estate companies on the floor of the Nigerian Exchange Group (NGX) as of 31st December 2023. In NGX, there are seven (7) healthcare publicly listed companies, nine (9) construction/real estate and nine (9) natural resources, totalling twenty-five (25) publicly listed healthcare, natural resources and construction/real estate companies as at 31<sup>st</sup> December, 2023 (The Nigerian Exchange Group, 2024). Hence, the population was made up of twenty-five (25) publicly quoted listed healthcare, natural

resources and construction/real estate companies.

Given the nature of companies in these sectors under investigation, a sample of five (5) companies each were selected from each sector, hence totaling a sample size of fifteen (15) healthcare, natural resources and construction/real estate companies in Nigeria. The sampling technique was based on the inclusion and exclusion criteria; criterion employed was hinged on companies with spontaneous board remuneration and those without spontaneous board remuneration as well as management with tax aggressive behaviour.

This study used secondary source of data collection; the secondary data provides reliable information for the researcher to investigate how corporate governance variables relates with tax aggressiveness of publicly listed companies on the NGX as well as a means of providing solution to the identified problems in the course of the study. The secondary source of data collection include the yearly audited annual reports and accounts of the selected Healthcare, Natural Resources and Construction/Real Estate companies covering 2013-2022. Given the dependent and independent variables of the study, the following empirical models were estimated as follows:

$$\text{ETR} = (\text{BREM}, \text{BOWNS}, \text{BGD}, \text{BIND})$$

Eq.3.1

$$\text{ETR}_{it} = \alpha_0 + \beta_1 \text{BREM}_{it} + \beta_2 \text{BOWNS}_{it} + \beta_3 \text{BGD}_{it} + \beta_4 \text{BIND}_{it} + \varepsilon_{it}$$

Eq.3.2

Where: ETR is effective tax rate; BREM is board remuneration; BOWNS is board ownership structure; BGD is board gender diversity; BIND is board independence;  $\alpha$  is regression constant;  $\varepsilon$  is error term;  $i$  is individual companies;  $t$  is time dimension. Furthermore, to validate the direction of causality and resolve the endogeneity problem associated with panel data, one lagged value was observed; the lag was observed on the right hand side of equations 3.1-3.2 using and

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$Z$  (a vector of company-level control factor) as follows:

$$\text{ETR}_{it} = \alpha_0 + \beta_1 \text{BREM}_{it} + \beta_2 \text{BOWNS}_{it} + \beta_3 \text{BGD}_{it} + \beta_4 \text{BIND}_{it} - 1 + \gamma Z_{it} + \varepsilon_{it}$$

Eq.3.3

Data obtained were analyzed using descriptive, diagnostic and inferential statistics. This study used a dissimilar methodological approach such as the Generalized Method of Moments (GMM) because it accounts for unobserved

heterogeneity, endogeneity and serial correlation problems.

## Results

**Table 4.1: Summary Statistics**

Statistics	ETR	BREM	BOWNS	BGD	BIND
Mean	-16.188	1.5000	0.0065	17.315	0.5941
Median	-11.735	0.6573	0.0002	15.640	0.5833
Standard Deviation	5.5318	2.2614	0.0565	7.3636	0.1491
Kurtosis	3.7325	8.3151	4.9489	2.9645	4.8643
Skewness	-11.193	2.4299	11.938	0.5142	0.1174
N	150	150	150	150	150

**Source: Computed by the Researcher (2025)**

Table 4.1 revealed that ETR has a mean of -16.188; this indicates that the selected companies on the average have -16.2 percent overall tax expenses by prior-year accounting income tax. Besides, BREM recorded a mean of 1.5, indicating that board remunerations received on the average, a pay rise of ₦1.5 yearly. Also, BOWNS, BGD and BIND recorded mean values of 0.0065, 17.315 and 0.5941 respectively; this implies that the selected companies have approximately 0.65 percent CEO shareholdings compared to the total number of directors on the board, BGD (17.3%) indicates that the board had approximately 17% females compared to males on the board while BIND had a 5.9 percent proportion of non-executive director. The BGD is low and quite expected as most companies have more males than females on their board

The standard deviation revealed relative changes in the variables revolving around 0.0565 to 7.3363. The standard deviation for BREM (2.261) and BOWNS (0.0565) showed relatively low dispersion of board compensation and board ownership structure of the companies in Nigeria. The skewness values for BREM (2.429), BOWNS (11.938), BGD (0.514) and BIND (0.117) are positive; this suggests that in Nigeria board remuneration, board gender diversity, board ownership structure, board independence and effective tax rate moved in same direction. Also, kurtosis values for ETR (3.73), BREM (8.315), BOWNS (4.948), and BIND (4.864) were more than 3 (leptokurtic distribution), except BGD (2.964) that is less than 3 (platykurtic distribution).

**Table 4.2: Pearson Correlation**

Parameters	ETR	BREM	BOWNS	BGD	BIND
ETR	1.0000				
BREM	0.0264	1.0000			
BOWNS	-0.0052	-0.0377	1.0000		
BGD	-0.1143	-0.0104	-0.0425	1.0000	
BIND	-0.0940	-0.0101	0.0519	0.0064	1.0000

**Source: Computed by the Researcher (2025)**

Table 4.2 showed that BOWNS, BGD and BIND are negatively correlated with ETR

except BREM that is positively correlated with ETR; this implies that there is negative

relationship between BOWNS, BGD, BIND and ETR while a positive relationship exists

between BREM and ETR of the selected companies in Nigeria.

**Table 4.3: Variance Inflation Factor (VIF)**

Parameters	VIF	1/VIF
<b>BOWNS</b>	1.01	0.9941
<b>BIND</b>	1.00	0.9972
<b>BGD</b>	1.00	0.9979
<b>BREM</b>	1.00	0.9984
<b>Mean VIF</b>	1.00	

**Source: Computed by the Researcher (2025)**

Table 4.3 showed that the mean VIF is 1.00, which is less than the VIF threshold of 10.0; this indicates that there is absence of

multicollinearity in the model of corporate governance and tax aggressiveness of the selected companies in Nigeria

**Table 4.4: Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity**

<b>Chi1(1)</b>	<b>=</b>	<b>279.71</b>
<b>Prob. &gt; chi2</b>	<b>=</b>	<b>0.0000</b>

**Source: Computed by the Researcher (2025)**

The Breusch-Pagan/Cook-Weisberg result is 279.71 with Prob.>F of 0.0000, which is less than 0.05% significance level, suggesting the absence of heteroskedasticity problem in the

model of corporate governance and tax aggressiveness of the selected companies in Nigeria; hence, the data does not contain unequal variances.

**Table 4.5: Generalized Method of Moments Panel Estimation Results**

Parameters	Equation
	ETR
<b>L1</b>	0.0156*** (14.08)
<b>L2</b>	0.0499*** (5.19)
<b>BREM</b>	0.2818*** (7.71)
<b>BOWNS</b>	-0.0228*** (-7.10)
<b>BGD</b>	-0.0769*** (-7.71)
<b>BIND</b>	-0.0383*** (-6.38)
<b>Constant</b>	7.17*** (22.10)
<b>R-Squared</b>	0.81
<b>P-Value</b>	0.0000

**Source: Computed by the Researcher (2025) \*\*\*significant at 5%**

Table 4.5 showed the GMM panel estimation results which was used to ascertain the impact of corporate governance variables (BREM, BOWNS, BGD& BIND) on tax aggressiveness (ETR). Table 4.6 demonstrates that the coefficients BOWNS, BGD and BIND were negative; hence, there is negative significant impact of BOWNS, BGD and BIND on ETR of the selected companies in Nigeria while a positive significant impact was found between BREM and ETR.

Furthermore, it was found that BREM, BOWNS, BGD and BIND jointly explained about 81% of the systematic variation in ETR. Also, a change in BREM, BOWNS, BGD and BIND would result to approximately 0.28%, 0.8% and 0.4% decrease in ETR except BREM that would lead to 28% increase in ETR. First, given the t-value of -7.71, the null hypothesis was rejected while the alternate hypothesis was accepted; this suggests that there is significant relationship between board gender diversity and tax aggressiveness of listed industrial goods companies in Nigeria; however, the relationship was found to be negative.

Second, given the t-value of -6.38, the null hypothesis was rejected while the alternate hypothesis was accepted; this indicates that there is significant relationship between board independence and tax aggressiveness of listed industrial goods companies in Nigeria; however, the relationship was found to be negative. Third, given the t-value of -7.10, the null hypothesis was rejected while the alternate hypothesis was accepted; this implies that there is significant relationship between board ownership structure and tax aggressiveness of listed industrial goods companies in Nigeria; however, the relationship was found to be negative.

Finally, given the t-value of -7.71, the null hypothesis was rejected while the alternate hypothesis was accepted; this implies that there is significant relationship between board remuneration and tax aggressiveness of listed

industrial goods companies in Nigeria; however, the relationship was found to be positive.

### **Conclusion and Recommendations**

This study investigated the effects of corporate governance on tax aggressiveness. Two (2) important questions have been usually raised; the first is if efficient corporate governance can increase tax aggressiveness and second if companies with inefficient board would result to decreased tax aggressiveness; while findings seems to be mixed in the management literature, some researchers have the conviction that corporate governance efficiency would increase the likelihood tax aggressiveness.

In this study, we employed a sample of fifteen (15) companies drawn from healthcare, natural resources and construction/real estate from 2013–2022 to provide insights on the relationships between corporate governance and tax aggressiveness. The study demonstrates that corporate governance significantly influence tax aggressiveness of the publicly listed healthcare, natural resources and construction/real estate companies in Nigeria. On the basis of the findings of the study, the following recommendations are made:

- (i) The study suggests that board remuneration should be increased in order to further influence tax aggressiveness.
- (ii) Board ownership structure was found to negatively affect tax aggressiveness; hence there is the need for companies to reduce shares of CEOs in such a way that it does not prevail over the total number of directors' shares. This would enable companies attract additional directors with more resources that can influence tax aggressiveness.
- (iii) Board gender diversity was found to negatively influence tax aggressiveness; thus, companies should ensure that there is adequate balance in number of female



directors on the board in order to positively influence tax aggressiveness behaviour  
(iv) Board independence was found to negatively influence tax aggressiveness; thus,

companies should ensure that there is suitable proportion of non-executive director on the board in order to positively influence tax aggressiveness behaviour

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