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IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON CORPORARE TAX AGGRESSIVENESS: A SURVEY OF SELECTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

This paper considers the impact of corporate governance mechanisms such as board size, independent director, genderdiversity, quality of external auditors, managerial compensation and managerial ownership on corporate tax aggressiveness, among sampled quoted manufacturing companies in Nigeria. 24 out of the 32 listed manufacturing companies on the Nigeria Stock Exchange as at March, 2016 were used for the study. Secondary data of the sampled companies for an investigation period spanning five years from 2010 to 2014 were used in the study. Our study employs an ordinary least square regression analysis to test the impact of afore listed corporate governance mechanisms on corporate tax aggressiveness. We find that the presence of female directors on corporate board reduces the likelihood of corporate tax aggressiveness, while, tax aggressiveness increases with the quality of external auditor, high managerial ownership of shares and high managerial compensation particularly tied to performance measurement. However, results for board size and proportion of outside directors are not significant for the purpose of the current study. We recommend that, the appointment of more female directors on corporate board should be encouraged; domination of the big four audit firms in providing assurance and non-assurance audit services should be diluted by engagement of other highly structured partnership audit firms; managerial ownership of shares should be minimised and managerial compensation tied to performance should also regulated. These measures are necessary to reduce tax aggressiveness in corporate organisations.

Key words: Tax aggressiveness, corporate governance mechanisms, board characteristics

Introduction

Income tax paid by a firm to government is wealth transfer, so it could be seen as a cost to the company and owner itself. Hence, it is assumed that the owner of company will prefer the corporate management to be tax aggressive to maximise cash flow (Chen, Chen, Cheng and Shevlin, 2010). The fact that taxes take away greater proportion of the firms' pre-tax earnings and subsequently reduce their distributable profits could be a reason for the endless war against corporate tax aggressiveness(Daily Mail, 2010).

Tax aggressiveness is the action designed for the sole purpose of avoiding tax, with appropriate tax plan (Braithwaite, 2005,Frank, Lynch andRego2009). Tax aggressiveness is the extent to which the firm takes tax positions that are unlikely to survive a challenge by the Internal Revenue Service(I.R.S) (Sari &Martani, 2010). Tax avoidance differs from tax aggressiveness in that firms can lower their tax rates while still taking tax positions that are unlikely to be overturned by the I.R.S. The study of tax aggressiveness has been a subject of many intense reflections of researchers and regulators, since the proliferation of corporate scandals (e.g. enron, Cadbury, world com) in the last decade(Boussaidi& Hamed,2015). A significant amount of corporate taxes escapes from the State by following aggressive tax planning practices (Canada Revenue Agency (CRA), 2008).

Despite, several anti-avoidance laws in almost every country, corporations (particularly multi-nationals) around the world do employ expensive Accountants to find increasing complicated ways of paying less taxes (Daily Mail, 2010).Multinational Companies employ Transfer Pricing to move their profits offshore, leaving behind a shrinking tax base in their host countries and inexorable cuts to public services. A case in point is MTN Nigeria transfer of N37.6 Billion to Mauritius, enroute MTN Dubai(Tax haven) between 2010 and 2013 as management fee, with neither approval of National Office of Technology Acquisition and Promotion(NOTAP), nor tax payment thereon to FIRS, Nigeria(Premium Times, 2013).

Corporate governance plays an important role in monitoring different actors, harnessing planning procedures and in choosing tax management strategy in organisations. The quality of corporate governance plays an important role in determining the sensitivity of tax revenue to tax rate changes and equally affects the working of the tax system. A good corporate governance, makes it difficult for management to divert income, hence, increase in tax rate can increase the tax revenue. By contrast, a bad corporate governance system enables management to easily divert income. Hence, an increase in the tax rate can reduce tax revenues(Desai, Dyck and Zingales ,2007). The manner in which corporate governance rules are structured affects the way a corporation fulfills its tax obligations and the way tax designs (from the government perspective) and related tax strategies (from the corporation perspective) are planned, influences corporate governance dynamics and tax obedience(Sartori,2009).

In reaction to corporate crisis both internationally and nationally, the Nigerian Securities and Exchange Commission (SEC) in 2003 adopted a Code of Best Practices on Corporate Governance for publicly quoted companies in Nigeria with a view to engendering best practices in companies. The main target of code of corporate governance is the Board of directors as leaders of corporate organization as well as the responsibilities of other stakeholders including shareholders and professional bodies. (Audit and Assurance: ICAN, 2008).

Satori(2009) posits that it is wrongfully assumed that shareholders want managers to minimise the corporate tax burden. On the contrary, public shareholders do not want managers to minimise corporate tax obligations, but prefer to invest in corporations paying their fair amount of corporate taxes,to reducing the risk of penalties and increase interest in corporate social responsibility. It is guessed that shareholders do not want directors to engage in tax sheltering because doing so could create opportunities for directors to divert company's interest (Desai and Dharmapala, 2006).

Good corporate governance principles promotes transparency and alignment of interest, thus inducing managers to be tax compliant (Desai and Dharmapala, 2006).

The crux of the matter is that Corporate tax aggressiveness is one of the most challenging issues of the 21st century, as it constitutes a serious loss of revenue to the governments of many developed and developing economies (Hundal,2011).In Africa, tax aggressiveness is one of the factors holding the continent back by starving governments of the revenues required for development. United Nations and the African Union consider tax aggressiveness by multinationals to be an 'illicit financial flow', with attendant significant drain on government resources across the continent. The illicit financial flows, which included corruption and the proceeds of crime, were determined to be costing the continent $50billion a year (Premium Times, 2013). A recent report by Federal Internal Revenue Service (2013) shows total tax revenue to Gross Domestic Product (GDP) in Nigeria as 7%. This implies many companies and individuals liable to tax are defaulting.

Several researchers ((Desai and Dharmapala, 2006; Hanlon and Slemrod, 2009;Lanis and Richardson, 2011; Chen *et al.*, 2010) have studied the relationship between corporate governance mechanism and corporate tax aggressiveness and found contradictory results. Most of these researches used United States data and other western world including French and Tunisha. The study carried out on the same subject in Nigeria focused on banks.

Therefore, the objective of this study is to examine the impact of corporate governance mechanisms on corporate tax aggressiveness using data of quoted manufacturing companies in Nigeria. The specific objectives are to examine the impact of corporate board size, board composition, gender diversity, key management compensation, quality of external auditor and managerial ownership on corporate tax aggressiveness.

The rest of this paper is organised as follows. In section 2, a brief review of the theory and concept of tax aggressiveness, corporate governance and its mechanisms in relation to tax aggressiveness including hypotheses development is given, and in section 3, reports the research methodology and definition and measurement of study variables. Empirical results and conclusions are presented in section 4 and 5, respectively.

Literature Review

Conceptual Discourse

Concept of Tax Aggressiveness

Chen *et al.*(2010), defined tax aggressiveness as the effort of the company to minimise tax payments using aggressive tax planning activities and tax avoidance. If firms reduce their tax payments by engaging in activities or interpreting the tax code in ways that would be unlikely to be upheld if the firm were audited, they are exhibiting tax aggressiveness(Guenther, Matsunga and Williams ,2013).

Tax aggressiveness is defined as the extent to which the firm takes tax positions that are unlikely to survive a challenge by the Tax authourity(Guenther, Matsunga, and Williams, 2013).Frank *et al.* (2009)sees aggressive tax returns as the manipulation to lower tax income due to a kind of tax planning that can be considered as tax management.

Bruce *et al.*(2007) reports that tax aggressiveness is a set of actions taken by companies to reduce their public debts, in order to achieve their planned financial strategy. Aggressive tax represents different handling activities to lower taxable income that can be legal or illegal. The implementation of such strategies to reduce the tax base allows the generation of high potential non-tax cost that arises from agency conflicts or tax-authority. This can take the form of sanctions from tax authourity, decline stock price(Desai and Dharmapala (2006).

Desai and Dharmapala (2006),indicated that tax aggressiveness activities are characterised by complexity and obfuscation, which is practically difficult to detect. Chen et al.(2010), asserts that the most significant goal of tax aggressiveness is to increase the net income of the company with attendant positive signals to foreign investors).

Companies' tax aggressiveness could take two dimensions of (i) legal and (ii) tax sheltering. Legal way is to find out what kinds of transactions are

favourable under the current law. This is legal tax avoidance. This is capitalising on the loopholes in the tax laws, to minimise tax liabilities (Okoeguale, & Eiya ,2013). Tax shelter on the other hand is to design a transaction with the intention to reduce the company tax liability (Desai and Dharmapala, 2006). The US Congress, Joint Committee on Taxation defined a corporate tax shelter as a plan or arrangement designed principally to avoid or evade federal income tax without exposure to economic risk or loss (Wilson. 2009). Tax aggressiveness is the most extreme subset of tax avoidance, that is regarded as pushing the envelope of the tax laws (Hanlon and Heitzman, 2014).

Concept of Corporate governance

Corporate Governance is a process through which shareholders can induce management to act in their interest and provide a degree of confidence to investors (Rezaee,2009). Corporate Governance is largely concerned with governing the relationship between shareholders and directors (Alo, 2007 as cited in Okpanachi, Samuel & Suleiman (2013). Organization for Economic Co-operation and Development (OECD)(2004),avers that Corporate Governance structure specifies the distribution of rights and responsibilities among different participants such as the shareholders, boards, managers and other stakeholders in the corporation and spells out the rules and procedure for making decisions on corporate affairs. Good corporate governance principles should promote transparency, efficient markets, consistency with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. It should recognise and protect the rights of all shareholders and other stakeholders; disclose timely and accurate information regarding the corporation, including the financial situation, performance, ownership, and governance of the company and ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholder (OECD, 2004, Hassan, 2010 as cited in Okpanachi, Samuel & Suleiman, 2013 & Oladejo, 2008. Corporate governance is considered good when the rights and responsibilities of stakeholders are reflected in the decision of the company (Shailer, 2004).

Corporate governance requires designing systems, processes, procedures, structures and taking decisions on ways to improve company's financial performance and stakeholders' value in the end (Pandey, 2006). Corporate governance also focuses on the accountability mechanism that governs the relationship among shareholders, the board of directors, senior management, the workers and other stakeholders (Hassan, 2010 and Rezaee, 2009).

Increasing focus on corporate governance is as a result of corporate collapse of major companies(e.g Enron, World com in USA, Barrings bank in UK, One Tel's in Australia, HIH Insurance, Poly Peck in UK) in the world due to weak corporate governance(Cortese, 2009; Jackling and Johl, 2009; Mallin Millineux and Winborg, 2005; and Monem, 2011). Chienjien (2010) in his study identified four Board Characteristics (BC), such as Board Composition (BC), Board Size (BS), Board Ownership (BO), Chief Executive Officer (CEO) duality as possibly having an impact on corporate financial performance and these characteristic are said to be independent variables.

The main target of code of corporate governance is the Board of directors as leaders of corporate organization as well as the responsibilities of other stakeholders including shareholders and professional bodies. The collapse of companies recently has been blamed partly to negligence of the Directors to properly carry out the oversight function of monitoring over management team and board members not fulfilling the responsibilities appropriately towards shareholders (Audit and Assurance: ICAN 2008).

Cost and Benefit of Tax Aggressiveness

Naturally, in order to maximise the value of the firm, shareholders would like to minimise corporate tax payments net of the private costs of doing so, hence, they want the company to be optimally aggressive (Chen et al. 2009). However, there are cost.to the extent IRS and tax courts deem that tax aggressiveness is non-compliance and may be disallowed and subject to penalties. The news about application of penalties on companies and negative effect on future cash flow outlays for back taxes or increased future taxes is almost certainly viewed negatively (Hanlon &Slermrod,2009).

The marginal benefits of tax aggressiveness to shareholders include greater tax savings for the corporation, whereas the marginal costs include the potential tax fines and penalties by the tax administration, implementation costs, reputational costs, and political costs (Scholes *et al.* 2005; Slemrod 2004).Tax aggressiveness may create tax risks due to the exposure of the business to unexpected results and may also create an incentive for management opportunity for higher compensation and misappropriation of rent-extraction (Khurana and Moser, 2013, Chen et al, 2010).

The complicated transactions used to avoid taxes may be so expensive and cost the company fortune. The celebrated Enron saga is a case in point. The tax department of Enron was turned into a business department with annual target revenue (the amount of tax saved). The tax department was dealing with complicated and expensive transactions in order to avoid taxes at a substantial cost to the company. When the bubble eventually burst all the stakeholders notably shareholders bore the brunt. As a result, the shareholders actually couldn't be benefited (Hanlon & Slermrod,2009).

It is therefore expected that corporations demonstrate to investors that they are complying with tax rules and regulations, because investors are aware that tax aggressiveness has a detrimental effect on their investment returns (Henderson Global Investors 2005).

Agency theory

The agency theory is the main theoretical framework for the vast majority of research on corporate governance and corporate tax aggressiveness due to separation of ownership and management (Chen & Chu, 2005 & Crocker; Slemrod, 2005&Boussaidi&Hamed ,2015).

The agency conflict arises because the Manager has the tendency to perform actions which conflict with principal interests (Boussaidi & Hamed, 2015). The agency theory, posits that in the presence of information asymmetry, the agent (directors and managers) is likely to pursue interests that may hurt or lead to loss of value to the principal, or shareholder (Fama, 1980& Desai & Dharmapala, 2006). The theory which was initially limited to managers and

equity holders without recognising other interested parties in the wellbeing of the firm, has now been widened in scope by later research efforts to include other stakeholders. This approach, which attempts to align the interests of managers and all stakeholders, has come to be regarded as the stakeholder theory(Sanda, Mukailu and Garba, 2005).

The nature and extent of agency conflicts can affect the level of tax aggressiveness (Boussaidi & Hamed ,2015). The decision of tax strategy is made by shareholders' agent, the directors and as a result, may not align with the shareholders' objective, hence, agency problem arises and makes the tax issue complicated (Garbarino.2009).

Agency problems usually happen between principal and management, but it also occur between majority shareholders and minority shareholders. The majority shareholders, interested in the protection of their own interests, hence, support information's asymmetry, and are not interested in the protection of the right of minority shareholders(Boussaidi & Hamed ,2015).

Theory of governance partnership

Agency theory focuses on the link between managers and shareholders, while corporate social responsibility (CSR) and stakeholder theories focus on the relationship between firm and many other stakeholders such as tax authorities, political groups, employees, customers and the public in general. Contrary to the agency theory that establishes a unique relationship between shareholders and CEOs or between majority shareholders and minority shareholders, the partnership approach is presented as a broader vision based on a partnership model, which includes all stakeholders of the company(Sanda, Mukailu and Garba, 2005).

CSR is "the continuing commitment by which businesses behave ethically and contribute to economic development, and at the same time improving the quality of life of the workforce and the local community to feel wider (Holme and Watts , 2006).

Lanis and Richardson (2011)concludes that the principles of corporate social responsibility affect in negative way the tax aggressiveness of Australian companies.

Yeung(2010), reviews the relationship between companies' corporate governance situation and the tax aggressiveness with focus on the Hong Kong companies which are mainly subjected to the Hong Kong tax. The regression result shows that there are relationships between corporate governance factors and the effective tax rate, but the relationship may be greatly affected by economic environment.

Kiabel and Akenbor(2014), investigated tax planning with a view to determining its impact on corporate governance in Nigerian banks. They find that tax planning has a positive significant impact on corporate governance in Nigerian banks, but the accruable tax savings do not significantly outweigh tax planning cost

Corporate Board Characteristics and Tax Aggressiveness

Board characteristics refer to board size, the division of labour between the board chair and the CEO, and finally its composition and diversity(Richardson *et al.*,2013). The characteristics of management and the board of directors play a key role in determining the propensity of companies to engage in activities of tax aggressiveness (Richardson *et al.*,2013). The structure of the board of directors has an important role to play in monitoring management, different from that other governance mechanisms (Uzun*et al.*,2004 and Ibrahim *et al.*,2003). Also, structure of the board improves cash tax management(Minnick and Nog,2013)

The board of Directors is a major internal governance mechanism that is intended to ensure that the interest of shareholders/investors and managers are closely aligned, and to discipline or remove ineffective management team(Moroney, Campbell and Hamilton, 2011, and Kang, Cheng and Gray, 2007; Jensen1993)). The board of directors bears the ultimate responsibility for the tax affairs of the corporation and hence accountable to shareholders and other stakeholders (Erle 2008).

The board of directors must develop careful strategy within its risk management framework for the corporation strategic tax planning, taking into cognisance the sustainability, compatibility with business activities, taxation structures, compliance culture of the corporation and the issue of paying a fair share of corporate taxes (Landolf,2006). Therefore, board size, composition and gender diversity are discussed. However, duality is not considered because all corporate organisations in Nigeria have separate chairmen and Chief Executive Officers.

Board Size and Tax aggressiveness

Board Sizeis total number of directors on the board of any corporate organisation. Determining the optimal or ideal board size for a corporation is very important because the number and quality of directors in a firm determine and influence the board functioning, hence, corporate performance. Proponents of large board size believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. They are also capable of reducing the dominance of an overbearing CEO (Forbes and Milliken, 1999) and hence put the necessary checks and balances. Board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). However, there are authors who believe that large board size adversely affects the performance and wellbeing of any firm. Larger boards are difficult to coordinate, and are very prone to factionalisations and coalitions that will delay strategic decision making processes (Forbes and Milliken, 1999).

The earlier studies (e.gBorokovich et al. 1996; Core et al. 1999 and Yermack,1996),asserted that, larger boards with more inside directors tend to have more agency problems, while, firms with small boards and a higher percentage of outsiderswill bemore concerned about shareholder welfare, firm performance and higher stock returns (Yermack,1996; Jensen1993 and Weisbach1988). On the contrary, BhagatandBlack,1999; Coles, Daniel and Naveen, 2008, posit that small boards with more independent directors do not necessarily relate to strong firm performance. They further affirm thatthere is not a single optimal structure; rather the structure depends on the industry and varies withthe company's characteristics. For instance,

complex companies have large boardswith more outsiders; as complex companies' values increase with board size, while the values of simpler companies decrease with board size.

The board size affects the activity of tax aggressiveness (Zemzem and Ftouhi,2013). Jensen (1993) argues that when the board of directors is small it performs a better controlling function, but when it is large, it is less likely to function effectively as a curb on management, and is thus, easier for the Chief Executive Officer (CEO) to control. It is reasonable to assume that a larger board of directors will increase the possibility of corporate tax aggressiveness. Bases on the foregoing argument. This study put forward this hypothesis:

H1. Smaller board size is negatively associated with tax aggressiveness

Board Composition and Tax Aggressiveness

Board Composition refers to the distinction between inside and outside directors, and this is traditionally shown as the percentage of outside directors on the board (Goergen and Renneboog, 2000).The inclusion of a higher proportion of outside members on the board of directors reduces the likelihood of tax aggressiveness (Lanis& Richardson,2011).In contrast, Yeung (2010) opines that increase in board independency decreases the effective tax rate. The independent non-executive directors are always seen as a balancing force on the board and their existence shows a symptom of good corporate governance(Bhagat & Bolton 2008).

Corporate Social Responsibility (CSR) literature emphasises the importance of non-executive directors in monitoring the behaviour of top management in the context of key strategic decisions that affect society as a whole(Rose 2007). It is therefore reasonable to expect that a higher proportion of outside directors on the board could significantly reduce the likelihood of tax aggressiveness. Hence, the second hypothesis is given below:

H2. The proportion of outside directors is negatively associated with tax aggressiveness

Gender diversity and Tax Aggressiveness

Gender Diversity is defined as a concept used to depict the varied personal characteristics that make the workforce heterogeneous (DeCenzo and Robbins, 2005). For boards to be effective there is need for diverse perspective in the board to confront the thinking of management. Gender diversity focuses on the composition of women on the board of corporations.

Kastlunger *et al.* (2010) and Fallan (1999) demonstrate the relevance of feminine values in the treatment of tax matters. The researchers posit that women are considerate and interpretations of situations and tax regulations differ depending on the masculine and feminine traits. Croson & Gneezy (2009) and Hasseldine (1999), assume that women must have higher levels of tax compliance, while men should show higher levels of aggressive tax. Hence, where sex is a consideration, women are often judged more suitable than men (Lewis *et al.* 2009; Gërxhani 2007, Francis et al.2014).

Boussaidi &Hamed (2015), affirm that diversity in gender on corporate board exhibits a positive association with the effective tax rate and have a significant effect on firms'tax aggressiveness activities .According to Zemzem and Ftouhi, 2013, any increase in the percentage of women on the board affects the activity of tax aggressiveness. Also, diversity enhamces the mission assigned to the control board and thereby reduces fat control costs because female directors are in most cases independent..

H3. Higher percentage of women on the board is negatively associated with tax aggressiveness

Managerial ownership and Tax Aggressiveness

Ownership of shares by membership of corporate board creates an incentive to protect the financial interest of a corporation. Managerial ownership exhibits a positive association with the effective tax rate and have a significant effect on firms tax aggressive activities (Boussaidi&Hamed, 2015)

Fakile and Ugbuigbe (2013),confirmed the impact of tax systems on corporate ownership patterns, and how ownership patterns in turn constrain corporate taxation.Ying (2011), found that the higher the percentage of director's interest, the lower the effective interest rate. Khorana & Moser (2012) argued that the 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. Sari &Martani (2010), failed to find significant association between family ownership, corporate governance and tax aggressiveness in Indonesia. However, posited that corporate governance has negative relation with tax aggressiveness.

Chen *et al.* (2010), find that family firms are less tax aggressive than their non-family counterparts, ceteris paribus and that family owners are willing to forgo tax benefits to avoid the non-tax cost of a potential price discount or market price reduction, which can arise from minority shareholders' concern with family rent seeking masked by tax avoidance activities.
Annuar, Salihu andObid (2014), argued, based on cost/benefits consideration of tax avoidance, that family; foreign and government ownerships could be associated with corporate tax avoidance among Malaysian listed companies. The study further proposed that strong governance mechanism could mitigate such association.

It is therefore reasonable to assume that managerial ownership of corporation will have effect on tax aggressiveness. We therefore propose the next hypothesis:

H4: Managerial ownership is negatively associated with tax aggressiveness

Managerial compensation and Tax Aggressiveness

Managerial incentive compensation such as monetary incentives, stock and option grants, appears to be a significant determinant of tax aggressiveness activity.The influence of management compensation/incentive to corporate tax aggressive action differs between companies with good corporate governance practice and bad corporate governance practice (Desai and Dharmapala, 2006).

The Directors have two incentives to protect shareholders, namely their reputation and their compensation. Directors with good reputations may be rewarded with other opportunities, such as board seats in other companies. As the value of a company rises, outside board members experience higher compensation and an increase in future outside board seats presumably due to increased reputation. However, when value decreases, board members are more likely to lose their seats on the board. It is therefore directors' best interests to work to increase the value of the company. One possible method of increasing a firm's value is through the effective management of the company's tax expense (Yermack, 2004).

Minnick and Nog (2013), concluded that high pay performance sensitivity, significantly reduces effective tax rate(ETR) andhigher pay performance sensitivity (PPS) for both CEOs and Directors results in lower taxes. Since Directors are responsible for asset allocation, they are in a position to provide more resources toward tax management, which can be a driver of good long-term performance (Minnick and Nog, 2013).

Rego and Wilson, 2009 and Hanlon et al, 2005), found a positive relationship between compensation including equity based incentive and aggressive tax planning, but did not find any evidence that tax aggressiveness leads to poor future firm performance or result in a weak governance. However, Densai and Dharmapala, 2006) found an unusual relationship between equity incentives and tax aggressiveness. i.e increase incentive leads to less tax aggressive action. The research punctuated that the result might be associated with quality of corporate governance. Also, Armstrong et al (2009) found that compensation incentives have a strong negative relationship with financial ETR.Desai and Dharmapala(2006), posited that negative relationship between management compensation/incentive and tax aggressive action is more pronounced in companies with bad level of corporate governance practice

Stock and optiongrantslink managers' personal wealth with shareholders' value, and therefore align shareholders' and managers incentives. Minimising taxes should be an important goal of maximising compensation.
Therefore, our next hypothesis is stated as follows:

H5. Managerial compensation is negatively associated with tax aggressiveness

Quality of External Auditor and Tax Aggressiveness

The quality of external auditor may have effect on corporate tax aggressiveness. It is expected that the external audit being an assurance service engaged by the Board as approved by the shareholders at the Annual General Meeting should constitute a check on the management and should help to reduce information asymmetry and promote a good corporate governance practice in corporations. The quality of the external auditor's is a determinant of the audit fee. Firms with lower long-run cash or accumulated effective tax rates pay high audit fee for external audit service than other firms especially when no other industry specialist is engaged (Dyreng, Hanlon, and Maydew 2008; Ayers, Jiang, and Laplante, 2009, Palmrose, 1986).If a company uses a BIG4 auditor and the services of the external auditor have a low proportion of non-audit services, it is less likely to be aggressive tax purposes(Richardson et al.,2013).However, Boussaidi&Hamed(2015), found a negative, but not significant, relationship between the quality of the external auditor BIG4 and ETR.

In view of this contradiction, our next hypothesis is stated as follows :
H6: The quality of external auditor is negatively associated with tax aggressiveness

Research Methodology

Our methodological approach to examine the impact of corporate governance mechanisms on tax aggressiveness is based on 32 manufacturing companies listed on the Nigeria stock exchange (NSE) over an investigation period spanning five years, from 2010 to 2014.These data are collected from the annual reports of sampled manufacturing companies on the daily active list of NSE as at 24 March 2016. The corporate tax rate in Nigeria in the period under study is 30%.

Sampling Technique

A purposive non-probability sampling technique was adopted as only companies with available information were selected in the study. Available data were analysed, while companies with deficiencies as categorised below were excluded from the sample: (1) Company with incomplete data; or company accomplishes no activity in certain year. (2) Company with negative income, because this will create distortion on score of effective tax rate (Richardson and Lanis 2007; Zimmerman 1983). 24 companies were arrived at after the above adjustment.Therefore, the total number of observations for the five-year period are 120. Ordinary least square method was used for the analysis of data.

Measures and Definitions of Variables

Dependent variable

TaxAggressiveness(TAG) is the dependendent variable and is measuredby Effective Tax rate(ETR). Several measures of tax aggressiveness such as cash effective tax rate (Hanlon & Shevlin,2003), book-tax difference measures (Manzon&Plesko, 2002) and a residual book-tax difference (Desai &Dharmapala, 2006) have been used previously in the extant accounting literature.

ETR isemployed because it is the most relevant measure of the ability of the company to optimise tax burden (Chadefaux and Rossignol, 2006, Sari &Martani, 2010, Robinson and Sikes, 2006; Dyreng *et al.,* 2008; Minnik and Noga, 2010).*ETR* is also used because it can reflect fixed difference between book revenuecalculations with fiscal revenue (Frank et al. 2009). The income tax expense is adjusted for effect of deferred tax.

ETR = Total tax expense / Pre-tax income

Independent variables

The independent variables are represented by some corporate governance mechanisms. These are board size, board composition,gender diversity on board, managerial compensation, manaownership concentration and quality of external auditors.

The board size (BODSZ) is measured by the logarithm of the total number of directors of the corporate board(Godard, 2002).BODSZ: The logarithm of the total number of directors comprising the board). Independent or outside director(OUTDR) is measured as percentage of Non-executive director on the board(Zemzem&Ftouhi, 2013).

Gender diversity in corporate board (GNGVR) is measured by the percentage of women on the board. GNGVR- Number of women in board / the total number of directors onCorporate Board.

Quality of the external auditor (QUAEX) is measured based on auditor's profile. If the external auditor belongs to the BIG4(PWC, KPMG, Earnst and Young and Akintola Williams Deloite) or not. QUAEX takes1 and 0 if not.

Managerial compensation(MNGCO) is a measure of executive director's salary, bonus, long term incentive plan payouts, the value of restricted stock grants, the value of option grants during the year and any other any pay. Management compensation is measured as the natural log of compensation.

Managerial ownership (MNGOW): This variable is represented by the percentage of capital held by the leaders and members of the board. It is measured as the cumulative percentage of shares held by the leader and

members of the Board of Directors.

Control variables

A set of control variables is included in our analysis to allow for control of other specific effects on tax aggressiveness. This includes firm size and corporate performance in line with Boussaidi and Hamed,2015 and Zemzem&Ftouhi, 2013. Recent studies confirm the existence of a positive relationship between firm size and the effective tax rate (Richardson *et al.*, 2013; Desai and Dharmapala, 2006; Chen *et al.*, 2010).

Thefirm size (SIZE) is measured by natural logarithm oftotal assets.

The performance of the company (ROA) is defined as the ratio between operating income and total assets. Companies are interested in tax optimisation in order to improve business performance. This variable is used to control the performance and highlight the specific effect of tax optimisation (Minnick &Noga 2010; Dyreng*etal.* 2008). Lisowsky (2010)confirms thattax aggressiveness is positively associated with performance.

Table 1: Description of Variables

Variables	Abbreviation	Measurement
Dependent Variable		
Effective Tax Rate	ETR	Tax Expense/Pre-tax income
Independent Variables		
Board Size	BODSZ	Natural log of the total number of directors
Gender Diversity	GNGVR	% of women on the Board
Managerial Compensation	MNGCO	Total Key Management Compensation/Sales
Independent Directors	OUTDR	% of Non- Executive Directors
Quality of External Auditor	QUAEX	Dichotomous variable that takes 1 when the Auditor is among Big Four and 0 when not
Managerial Ownership	MNGOW	Cum % of share held by leaders and members of Board.
Performance	PERFM	Operating income / Total assets
Firm Size	FSIZE	Natural log of the book value of total assets

Source: Author's own

Regression model

This study aims to examine the relationship between tax aggressiveness of the business and governance mechanisms, thereby leading us to an empirical analysis that will help us to identify the different results of this association. The equation for our empirical model is as follows:

$$ETR_{firm} = \beta_0 + \beta 1BODSZ_{it-1} + \beta_{2OUTDR\,it-1} + \beta_3 GNDVR_{it-1} + \beta_4 MNGOW_{it} + \beta_5 MNGCO_{it} + \beta_6 QUAEX_{it} + \gamma CONTROL_{it} + d_t + n_i + u_{it}$$

In this equation, ETR_{firm}represents firm engagement in tax aggressiveness (measured as a dummy variable which equals to 1 if firm was considered tax aggressive and, 0 otherwise), a company is considered tax aggressive when its ETR is less than corporate income tax rate (i.e., 30%) in an accounting period.Other variables are as defined in Table 1.

Empirical results and analysis

Descriptive statistics and univariate test

We present the summary descriptive statistics for sample companies in Table 2. We find that 63% of sampled companies engage in tax aggressiveness. At the same time, the proportion of outside directors is 38%. Approximately 18% of board members are female; the proportion of managers who own firm shares are 4%; average managerial compensation is at 0.2% of total asset, while 52% of sampled firms are audited by one of the Big-N firms.

Table 2
Descriptive statistics.

Variable	Obs.	Mean	Std. dev.	Min	Max
Effective Tax Rate (ETR)	120	0.629	0.706	0.000	1.000
Board size	120	9.052	2.386	2.021	21.197
Outside directors (%)	120	0.384	0.387	0.300	21.000
Gender diversity (%)	120	0.183	0.184	0.000	0.875
Managerial ownership (%)	120	0.042	2.472	0.004	0.612
Managerial compensation (%)	120	0.0024	0.008	0.001	0.034
Quality of external audit	120	0.521	27.138	0.000	1.000
Return on Asset (%)	120	0.023	0.002	0.002	0.062
Firm size (Thousands of Nigerian naira)	120	297.249	138.714	112.903	346.791

Table 3.
Correlation matrix.

Variables	1	2	3	4	5	6	7	8
Board size	0.14							
Outside directors	-0.09	0.01						
Gender diversity	0.07	-0.01	0.03					
Managerial ownership	-0.03	0.04	0.06	-0.05				
Managerial compensation	0.10**	-0.08	0.05	-0.10**	0.51**			
Quality of external audit	-0.06	-0.01	0.07	-0.13**	-0.11**	-0.10***		
Return on Asset	-0.04	0.12	-0.18***	0.14**	-0.02	-0.02	0.07	

Firm size	-0.11**	0.01	-0.13**	0.22**	-0.04	-0.17***	0.09	-0.02

The bold values denotes statistical significance at $p < 0.05$

Additionally, we examine the multicollinearity between the independent variables through the Spearman's rho correlations (see Table 3). The results allow us to rule out the possible coexistence of multicollinearity between the variables in the studies' model, and its consequences on the regression analysis, because although there are some significant correlations, all are below 0.4.

Discussion of Findings

Table 4 reports the main regression results. Regression (1) in Table 4regress the likelihood of tax aggressiveness on the control variables. We find that firms that are large in size with significant returns on investment have lower likelihood of engaging in tax aggressiveness. This is consistent with our prediction that the size of firms can reduce the likelihood of tax aggressiveness. This also implies that the bigger the firm, the lesser the conflict between company decision and regulations.

Regression (2) in Table 4 includes individual firm corporate governance characteristics. The pseudo R^2 is 53% and the incremental increase in R^2 when including individual firm corporate governance characteristics is 31%;this is not only statistically significant but also economically significant. It further suggests that the likelihood of tax aggressiveness is highly influenced by corporate governance mechanisms.

Our findings indicate that the presence of female directors reduces the likelihood of corporate tax aggressiveness, consistent with Boussaidi&Hamed , 2015, Francis et al.,2014 and Black (2001)prediction that countries which have greater proportion of women in governance are far less corrupt when compared with their male counterparts. This also supportshypothesis H3.

We found that tax aggressiveness increases with the quality of external auditor in line with Boussaidi&Hamed, 2015aand Palm rose, 1986. This finding is also in line with the accusations of the Big-N firms aggressive revenue drive,

earnings significant fees in areas of non-audit services. Hence, hypothesis H6 is not supported.

The coefficient of managerial ownership has a positive and significant influence on tax aggressiveness. According to this result, ownership of shares by managers could be an appropriate measure of corporate governance in order to control their actions and interest thereof. Thus, hypothesis H4 is not supported.

The result formanagerial compensation is positive and significant, not supporting hypothesis H5, as such, increases in managerial compensation is a motivator for tax aggressiveness. Perhaps, one way managers could earn higher pay is to reduce tax burden(Miller, 2006).This result is in line with Minnick and Nog, 2013 and Yermack, 2004.

The results for board size and proportion of outside directors are negative, however not significant for the purpose of the current study. These results are consistent with Zemzem&Ftouhi, 2013, Jensen, 1993, Lanis&Ricardson, 2011, but inconsistent with Yeung, 2010. Overall, our results lend credence to the impact of corporate governance mechanism on tax aggressiveness.

Table 4
Regression results on likelihood of contravention.

Variable	Regression 1		Regression 2	
	Dependent: Tax aggression		Dependent: Tax aggression	
	Coefficient	Std. error	Coefficient	Std. error
Board size			-0.02	0.004
Outside directors			-0.0.001	0.012
Gender diversity			-0.135***	0.028
Managerial ownership			0.556**	0.239
Managerial compensation			0.564***	0.011
Quality of external audit			0.541**	0.244
Return on Asset	-1.941 **	0.828	-0.152***	0.027
Firm size	-0.074***	0.018	0.004	0.446
Constant	3.492	13.912	32.564*	18.338
Year dummies	Controlled		Controlled	
Number of observations	2	4	2	4

Pseudo R2	31.16% 53.43%

Source: Author's own
*Significant at the 10% level.
**Significant at the 5% level.
***Significant at the 1% level.

Conclusion and Recommendations

This study considers the impact of corporate governance mechanisms(Board size, independent director, gender quality, quality of external auditors, managerial compensation and managerial ownership) on corporate tax aggressiveness. Based on a choice-based sample of 24 quoted manufacturing companies in Nigeria, for period between 2010 and 2014, our study employs a regression analysis to test the prediction that board size, outside director, gender diversity, managerial ownership, managerial compensation and quality of external auditor have impact on corporate tax aggressiveness.

We findthat the presence of female directors on corporate board reduces the likelihood of corporate tax aggressiveness, while, tax aggressiveness increases with the quality of external auditor, high managerial ownership of shares and high managerial compensation particularly tied to performance measurement. However, results for board size and proportion of outside directors are not significant for the purpose of the current study. We also find that firms that are large in size with significant returns on investment have lower likelihood of engaging in tax aggressiveness

We recommend that, the appointment of more female directors on corporate board should be encouraged; domination of the big four audit firms in providing assurance and non-assurance audit services should be diluted by engagement of other highly structured partnership audit firms; managerial ownership of shares should be minimised and managerial compensation tied to performance should also regulated. These measures are necessary to reduce tax aggressiveness in corporate organisations.

Overall, our study provides unique insights into the impact of corporate governance mechanismsand corporate tax aggressiveness.

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