# Effect of Board of Directors' Characteristics on Corporate Tax Aggressiveness of Quoted Companies in Nigeria

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**Abstract**. *This study examines the effects of board of directors' characteristics (BC) (i.e. board size [BSIZE] and diversity [BDIV]; managerial ownership [MOWN]; independent director [INDEP] and proportion of non-executive directors to the executive director [NEDED]) on tax aggressiveness (TA) as measured by the Effective Tax Rate (ETR) of 42 quoted financial service companies in Nigeria (2005 to 2014). The data used were subjected to Hausmans' specification test which results in the supremacy of random effect over fixed effect for interpretation purpose while* $R^2$ *(0.5467) and Wald Statistics (113.91) attests to the individual and joint significance of the independent variables. The study finds that BDIV, INDEP, MOWN and NEDED are statistically significant at 1% and 5% but the more the BDIV and INDEP on board composition the lower the TA while MOWN and NEDED are positively correlated with TA. BSIZE and the control variables (i.e. return on assets, leverage and firm size) were all insignificant. It was concluded that BC has varying impacts on TA, depending on the variable of BC used but recommends reduction in MOWN, increase in BDIV while less attention should be paid to BSIZE with a view to reducing TA and ensuring economic growth in Nigeria.*

**Keywords**: Tax aggressiveness, Board characteristics, Effective Tax rate.

## Introduction

Taxation occupies a central place in economic development of an economy as provides revenue for government to fund her activities, ensures resources redistribution, and generates employment. Despite these obvious benefits of taxes, tax non-compliance is an issue prevalent in every society where taxes are levied and it is as old as tax itself (Uadiale, Fagbemi & Ogunleye, 2010); especially at the corporate level (Hundal, 2011). This menace of tax avoidance remains prevalent among corporate taxpayers as income taxes is adjudged to take away greater proportion of the firms' pre-tax earnings and subsequently reduce their distributable profits, (Christensen and Murphy, 2004). To prevent reduction in profitability, companies do employ tax experts who assist in arranging their activities, taking advantage of the loop-holes in the tax laws; thereby paying less taxes.

This practice of reducing explicit corporate tax liabilities according to Hairul, Ibrahim, and Siti (2014) is termed Tax aggressiveness (TA) and is used interchangeably with tax management; tax planning; tax sheltering; and tax avoidance in the literature.

Hence, companies have converted their tax departments to profit centres where management incentives is tied to tax saved; this led to adoption of adoption of tax management strategies at the expense of the possible penalties and reputational risk the company may be exposed to if caught (Richard, 2014). Therefore, TA is one of the most challenging issues of our generation as it represents a serious loss of revenue to government

However, when company is tax aggressive, investors may not be the benefactors (Martinez, Ribeiro, and Funchal, 2015) as the complicated transactions and professional cost used to avoid taxes were so expensive and cost the company much. In some cases it had caused negative effects on the level of provision of public goods (Hanlon and Slemrod, 2006). Information asymmetry as evidenced in Henderson Global Investors (2005), revealed considerable reluctance by management to disclose tax governance related information to their shareholders, and this may lead to agency problems as the (board of directors) may not align with the shareholders (investors), thereby making the tax issues complicated (Duke and Kankpang, 2011).

As corporate scandal became proliferated across the globe, investors gradually lost confidence in the Capital Markets; which on the average led to decline in company's stock prices when there is news about its involvement in TA (Hanlon, and Slemrod, 2006). Also, Klein and Leffler (1981) opined that customers and suppliers might become wary of dealing with such firms associated with TA, thereby increasing future transaction costs and perhaps causing customers and suppliers to deal with other companies. This is because; engagement in TA activity could lead to prosecution and associated costs (Khurana, and Moser, 2013). Desai and Dharmapala (2009) thus opined that TA may signal dishonesty being extended to the financial accounting statements.

Against these backdrops was the need for effective corporate governance (CG) variables including BC as mechanism for mitigating against wide spread corporate scandals, resolve the agency problem and also restore investors' confidence.

A number of high profile corporate failures (Enron Corporation, World Com) brought about the CG reforms to protect stakeholder's interest, ensuring accountability and shareholders wealth maximization(Gompers, Ishii, and Metrick, 2003). This scenario according to Lanis and Richardson, (2011) prompted the US Congress to enact the Sarbanes-Oxley Act (SOX) in order to protect investors by improving the precision and reliability of the financial information

disclosed by listed companies. This law imposed stricter rules on executive compensation and accountability and induced more conservative behaviour by managers, mitigating negligent behaviour and moral hazard, such as inhibiting risky investment decisions with the aim of increasing personal gains (effective CG). Therefore, due to the nexus between TA and CG, provisions of the SOX Act which establishes a more rigorous overall governance rules, could have impact on TA (Armstrong, Blouin, and Larcker, 2012).

In Nigeria, emphasis on the need for CG reform began with the incidence of fraudulent financial reporting concerning Cadbury Nigeria Plc, Afribank Nigeria plc. and other financial failures caused by poor management, high gearing ratios, overtrading, creative accounting, and fraud (Osemeke, 2012). Therefore, a number of CG codes were put in place including: Central Bank of Nigeria (CBN) reviewed code 2014, Bank and Other Financial Institution Act (BOFIA), Security and Exchange Commission (SEC) reviewed code 2011, National Insurance Commission (NAICOM) Code 2009 and Pension Commission (PENCOM) Code 2008 with the view of enhancing transparency and accountability in the financial sector

According to Bebeji, Mohammed, and Tanko (2015), despite these CG codes, the role played by board members in the recent collapse of some financial institutions (Oceanic Bank, Intercontinental Bank and Afribank) indicated that BC is related to the magnitude of TA carried out in most organizations. Croson and Gneezy (2009) opined that BDIV can directly or indirectly impact an organisation's TA while Lanis and Richardson (2011) show that the inclusion of a higher proportion of outside members on the board reduces the likelihood of TA.

The studies of Laundry, Deslandes and Fortin (2013 and Khaoula (2013) in America, Khaoula and Ali (2012 in Tunisia were all on CG/board characteristics and TA. However, in Sub-Sahara Africa, these concepts have not been adequately addressed; for instance, the studies of Osemeke (2012) and Bebeji, Mohammed and Tanko (2015) could be useful but not directly related. By inference therefore, to the best of the researchers' knowledge, none of such studies could be found in Nigeria. As such, this study is not an academic futility but a necessity for expanding the academic frontier for securing companies' going concern.

Because board of directors' characteristics is multidimensional (board size, board diversity, shares held by directors, number of independent director on the board, ratio of non-executive to executive directors; the exigency of this study is justified on the need to ascertain which of the

board characteristics has the potential of reducing TA and agency problems in Nigeria where corporate investors have lost confidence in the capital market that is characterized with low returns and had led to low patronage of traded securities. This resulted to the following research questions:

1. Does board size have any significant influence on TA?
2. What impact does the presence of women on the board (board diversity) has on TA?
3. What is the relationship between independent director on the board and tax aggressive?
4. What influence does the number of shares held by directors have TA? and;
5. What effect does the proportion of non-executive directors (outside directors) over executive director (inside director) have on tax aggressive?

More so, the need to improve government revenue generation became imperative as the price of crude oil (major source of income for the country) nosedive continuously; this had made the clarion call for economic diversification (improve on tax income) very pertinent.

The main objective of this study is to investigate the effect of board of directors' characteristics on corporate TA of quoted financial service companies in Nigeria to serve as policy directives for regulators, government, shareholders and business managers. Specifically, the study examines the effect of: board size, board diversity, independent director managerial ownership and proportion of non-executive to executive directors on TA of quoted financial service companies in Nigeria.

Corresponding hypotheses were formulated for each board characteristics and were tested using data from forty-two (42) selected listed financial service companies on the Nigeria Stock Exchange between 2005 and 2014 because codes relating to board characteristics became operational in Nigeria in 2004.

**Conceptual Clarifications**

Baysinger and Butler(1985) posited that board of directors, maintains the power to hire, fire, and compensate management and serves to align interests of management and shareholders. It is in the director's best interest to increase the value of the firm through effective management

of the firm's tax expenditure (Yermack, 2004). Thus, the board plays an important role in CG of every organisation (Fama and Jensen, 1983).

CG practices are the essential codes to achieving and maintaining public trust and confidence in the financial sector. Poor CG may have contributed to corporate failures in Nigeria, which in turn had led to unemployment and a negative impact on the economy

Board of director characteristics refers to board size, the division of function between the chairman and the Chief Executive Officer, and finally its composition and diversity. According to SEC (2011) code of CG, the board of directors should be of a sufficient size, relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings.

TA has no universally accepted definition but is based on the degree of risk undertaken by a company (Richard, 2014) but it is a firm's effort spent on minimizing its tax payments legally, regardless of its ethical implication (Hanlon and Heitzman, 2011).

**Theoretical Discussion**

The stakeholder theory and agency theory are the two prominent theories upon which CG mechanisms rests. Agency theory explains the problems arising from the separation of ownership (providers of corporate finances) and control (management) of firm affairs in that the two parties often have different goals and different attitudes toward risk (Lanis and Richardson, 2011). Evidence from Cheung, Jiang, and Limpaphayom, 2010) shows that managers take advantage of the opaque internal control function for their own personal gains at the expense of shareholders, thus making them tax aggressive.

The stakeholders' theory provides that the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities (Khurana, and Moser, 2013). The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services to align the interests of these critical stakeholders with the interests of outside, passive shareholders. Although stakeholder theory can be many things to many people but it is a slight shift from a narrowed view (shareholders) to a broader view

(stakeholders), as management seeks to satisfy the interest of all stakeholders and not just the shareholders alone.

Thus, the interest of stakeholders are not adequately protected as a firm becomes tax aggressive since codes of best practices are violated as well as ethically and morally requirements to their stakeholders; thus, they tend not to be socially responsible by minimizing their tax liabilities. For instance, TA affects the stake of the government directly and the public indirectly; as reduction in tax liabilities shrinks government revenue for providing infrastructures for the country, thereby slow down economic growth and development.

**Empirical Discussions**

Khaoula and Ali. (2012) examined the effect of BC on corporate tax planning of selected companies listed on the Tunisian Stock Exchange Market from 2000 to 2007. The general least square regression model result revealed that CEO duality and diversity of the board of directors significantly influences tax planning while no relationship exists between board size, independent directors and corporate tax planning. However, the study of Khaoula (2013) on influence of CG on tax planning of selected American companies from 1996 to 2009 using multiple regression analysis finds no significant relationship between board size and effective tax rates.

Lanis and Richardson (2011) examined the association between corporate social responsibility (CSR) and corporate tax planning (CTA) of selected publicly listed Australian corporations in 2008/2009. The base regression model finds that the higher the level of CSR disclosure of a corporation, the lower the level of CTA

Issam, Staglianò and Jamal (2015) examined the effect of different activities of CSR on CTA using partial least squares regression analysis which reveals that a firm's TA depends on the nature of its CSR. However, Landry, *et al* (2013) concluded that socially responsible firms that are concerned about preserving their good reputation should be less tax aggressive while Dyreng, Hanlon and Maydew (2010) finds that individual executives exhibit different proclivities toward TA and as such this variation across executives affects their firms' TA in ways that cannot be explained by firm characteristics.

Martinez and Ramalho (2014) examined whether family firms are more aggressive in terms of tax planning than non-family firms in Brazil

from 2001 to 2012. The regression analysis result revealed a significant relationship between family firms and TA.

Jalali and Jalali (2013) investigated the impact of board of directors' structure on tax avoidance in companies Listed in Tehran Stock Exchange between 2010 and 2012. Logistic regression method was used and it was revealed that the independence of the board had a significant relationship with the aggressive tax policies. However, the ratio of non - executive members of the board did not show a positive and significant relationship but as the number of non-executive members increases the less the aggressive tax policies

Armstrong *et al.*, (2014) examined the link between CG, managerial incentives, and tax avoidance of listed firms on Compustat for the period 2007 to 2011. The quartile regression analysis reveals that CG decreases extremely high levels of tax avoidance and increase extremely low levels of tax avoidance.

Martinez *et al.*, (2015) investigated the effects of the Sarbanes-Oxley Act (SOX) on the TA of Brazilian firms between 2004 and 2012. Partial regression analysis model used for analysis provides evidenced that the implementation of more stringent internal controls does not inhibit aggressive tax practices of Brazilian firms.

The results of Rawiwan (2013), Ibrahim, Hairul, and Siti (2013) concluded that CG acts as monitoring mechanism to manage tax level for the companies in order to save tax through tax planning or earn TA benefits while Zemzem, and Ftouhi (2013) concludes that board size and the percentage of women in the board affect TA activities; but Stavroula(2015) finds a strong negative association between tax evasion and the percentage of shares held by the owner and its family members and also the percentage of stock held by board members. Kraft (2014) indicate that multinational firms have more possibilities to reduce the tax burden

Osemeke (2012) studied the relationship between BC and CSR in Nigeria between 2003 and 2009; and finds that board size and diversity have positive and significant relationship with firms' social responsibility. However, executive directors showed a negative insignificant relationship with social responsibility of the organization. The result of Bebeji, *et al* (2015) is not at variance with this

In addition to the important role played by the board and scanty/inadequate studies on the connection between CG and TA in sub-Sahara Africa, this study used different proxies to capture the

boards' influence on TA in depth rather than using one general corporate governance score.

## Methodology

### Model Specification

A multiple regression equation is set up to investigate the hypothesized relationships between the dependent (TA) and independent (Board characteristics) variables as follows:

*ETR = f(Board characteristics)* ---------- *(i)*

This study added (managerial ownership and proportion of non-executive directors to executive directors) which are areas that had been profusely abused in Nigeria to board size, existence of independent director on the board used as explanatory variables by Zemzem, &Ftouhi (2013). Leverage was added to the existing control variables they used (return on asset and firm size) due to the nature of Nigerian financial system.

The regression model for the empirical analysis is therefore given as follows:

*ETR = f (BSIZE, INDEP, BDIV, MOWN, NEDED, ROA, FSIZE, LEV)--(ii)*

Specifying equation (ii) becomes:

$ETRit = \alpha 0 + \alpha 1BSIZEit + \alpha 2BDIVit + \alpha 3MOWNit + \alpha 4INDEPit + \alpha 5NEDEDit + \alpha 6ROAit + \alpha 7FSIZEit + \alpha 8LEVit + \mu it$ ---------- *(iii)*

Where:
ETR = tax aggressiveness/Effective Tax Rate (ETR) = Total Tax Expense / Pre-tax income
BSIZE = total number of directors on the board at the end of financial year for company *i* in time *t*
BDIV = Board diversity= percentages of women in the board for company *i* in time *t*,
MOWN = Managerial ownership = the number of shares held by the directors to the total number of issued and fully paid shares for the year for company *i* in time *t*,
INDEP = percentage of independent directors on the board for company *i* in time *t*,
NEDED: Proportion of Non-executive directors to executive director for company *i* in time *t*

ROA: Return on Asset = ratio of operating income to total assets for companies *i* in time *t*. It is also used to measure corporate performance because companies are interested in tax optimization in order to

improve business performance. Thus, this variable is used to control the performance and highlight the specific effect of tax optimization.

FSIZE: Firm Size = natural log of the book value of total assets as it is believed that total asset increases as corporate performance improves. It is thus expected that company size would be positively related to firm performance, because larger companies normally have more market power; thus, the need for the inclusion of this control variable is imperative.

LEV: Leverage= long-term debt/total assets. Companies enjoy tax reliefs on interest thereby reducing their tax burdens and as such would subscribe to debt financing as part of its TA strategy. The essence of introducing leverage as a control variable is to control for the risk characteristics of the company.

*it*: the sampled 42 companies (*i*) and the ten (10) year time period(*t*) considered;

$\mu_{it}$: Error Term

This model was estimated using panel data analysis which employs fixed effect and random effect regression technique. The population for this study consists of all the 56 financial service companies listed on the Nigerian Stock Exchange (NSE) as at 2014 while the sample is restricted to only 42 based on data availability. Data were sourced from annual reports and accounts of selected companies for the period 2005 to 2014.

**Analysis**

The study hypotheses were tested using inferential statistics of regression and correlation tests while fixed effect and random effect regression analysis were employed to evaluate the impact of board characteristics on TA and correlation analysis was carried out to establish the degree of association of board characteristics proxies with that of TA and as well test for multicolinearity. For the purpose of obtaining a stronger empirical evidence to support this study, Hausman Specification test for the fixed and random effects were conducted to reduce the effect of a bias.

## Findings and Discussion

**Table 1: Correlation Matrix**

| VARIABLES | BSIZE | BDIV | ETR | FSIZE | INDEP | LEV | MOWN | NEDED | ROA |
|---|---|---|---|---|---|---|---|---|---|
| BSIZE | 1.000 | | | | | | | | |
| BDIV | 0.551 | 1.00 | | | | | | | |
| ETR | 0.163 | 0.11 | 1.000 | | | | | | |
| FSIZE | 0.144 | 0.127 | -0.0225 | 1.000 | | | | | |
| INDEP | 0.583 | 0.322 | 0.0086 | 0.312 | 1.000 | | | | |
| LEV | 0.102 | 0.075 | -0.0016 | 0.0808 | 0.0346 | 1.000 | | | |
| MOWN | -0.309 | -0.194 | 0.033 | -0.0079 | -0.0994 | -0.064 | 1.000 | | |
| NEDED | -0.370 | -0.142 | -0.287 | -0.051 | -0.338 | -0.0084 | -0.0389 | 1.0000 | |
| ROA | -0.109 | -0.131 | 0.059 | -0.075 | -0.155 | -0.0123 | 0.246 | -0.0232 | 1.000 |

The result of pair-wise correlation test conducted to examine the existence or otherwise of interdependence among the study variables (table 1), shows that FSIZE, LEV and NEDED are negatively related to ETR while all other variables are positively related to it. Equally, there are mixtures of positive and negative relationship among the variables. Yet, the coefficient of correlation is less than 0.5 for all the variables. Therefore, the correlation among them is weak which signifies lack of problem of multicolinearity among them.

### Regression Results

**Table 2: Fitness and joint significance test of the regression models**

| MODEL TEST | Goodness of fit R-squared ($R^{2)}$ | Joint significance Test Statistics | P-value |
|---|---|---|---|
| Fixed effect regression | 0.5083 | F Statistics =9.74 | 0.0000 |
| Random effect regression | 0.5467 | Wald Test Statistics = 113.91 | 0.0000 |

The $R^2$ statistics that measures goodness of fit of the panel regression models (fixed and random effect) estimated in this study as presented in table 2 are 0.5083 and 0.5467 respectively. This is an indication that the fitness of all the models is good. It means the fixed and random effect regressions respectively show that 50.83% and 54.67% changes in ETR is explained by changes in the independent variables (BSIZE, MOWN, NEDED FSIZE, BDIV, INDEP, ROA and LEV). Thus, all the two models have a good fit and their estimates are valid for empirical inferences.

More so, the result of the test of joint significance tests of the variables displayed in table 3 gave 9.74 and 113.91 (F-statistics and Wald Statistics) for fixed and random effects respectively. This is a clear

indication of the rejection of the null hypothesis and the establishment of joint significance of the independent variables in those models (p=0.0000). Thus, the independent variables considered individually and jointly have significant impact on the dependent variable.

**Table 3: Result of Hausman Test**

| | Coefficients (b) fix | (B) ran | (b-B) Difference | sqrt(diag(V_b-V_B)) S.E. |
|---|---|---|---|---|
| boardsize | -.013856 | .1173529 | -.1312089 | .078775 |
| boardd | .6857174 | .7439265 | -.0582091 | .084341 |
| mown | -.7200185 | -2.922363 | 2.202345 | 1.004403 |
| indep | 1.231019 | 1.280869 | -.0498499 | .225768 |
| neded | -1.014266 | -.9215604 | -.0927052 | .1057009 |
| firmsize | -.1442195 | -.0985579 | -.0456616 | .3277674 |
| roa | .1552471 | .3393372 | -.1840901 | .3434197 |
| lev | .0002235 | .0004797 | -.0002563 | .0004175 |
| _cons | 12.80489 | 11.7567 | 1.048181 | 2.594329 |

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                    b = consistent under Ho and Ha; obtained from xtreg
     B = inconsistent under Ha, efficient under Ho; obtained from xtreg

 Test:  Ho:  difference in coefficients not systematic

              chi2(9) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                      =       13.21
            Prob>chi2 =      0.1535
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Because both fixed and random effects have good fit and overall significance, Hausman test was conducted to select between the two models for discussion and conclusion. The result of this test in table 6 reveals Chi-square = 13.21 and p-value = 0.1535 indicating the insignificance of the chi square. Thus, the null hypothesis is accepted such that random effect regression is better for this study. Therefore, the discussion of findings and conclusion of this study is based on the results of the random effects regression.

**Table 4: Fixed and Random Effect Regression Results**

| VARIABLES | Fixed effect | Random effect | ½ of stad errors (a) |
|---|---|---|---|
| Board size (BSIZE) | -0.01386 | 0.1174 | a = 0.0587 |
| | (0.4312) | (0.4350) | t = 0.4350 |
| Board diversity (BDIV) | 0.6857*** | 0.7439*** | a =0.3719 |
| | (0.1798) | (0.1640) | t =0.1640 |
| Managerial ownership (MOWN) | -0.7200 | -2.9224** | a =1.4612 |
| | (1.6968) | (1.4207) | t =1.2809 |
| Independent directors (INDEP) | 1.2310*** | 1.2809*** | a =0.6404 |
| | (0.3574) | (0.2887) | t =0.2887 |
| Non-executive (Outsider) directors (NEDED) | -1.0143*** | -0.9216*** | a = -0.4108 |
| | (0.2515) | (0.2353) | t =0.2353 |
| Firm size (FSIZE) | -0.1442 | -0.09856 | a =-0.04928 |
| | (0.4275) | (0.2911) | t =0.2911 |
| Return on Asset (ROA) | 0.1552 | 0.3393 | a =0.1697 |
| | (1.1427) | (1.1202) | t= 1.1202 |
| Leverage (LEV) | 2.235e-04 | 4.797e-04 | a =-0.0002 |
| | (0.003553) | (0.003619) | t= 0.003619 |
| Constant | 12.805*** | 11.757*** | a=5.878 |
| | (3.4548) | (24124) | t= 2424 |
| R-squared | 0.402 | 0.5467 | |
| Observations | 420 | 420 | |

*Standard errors in parentheses. ***, ** and * denote 1%, 5% and 10% level of sig. respectively.*

The result of the random effect regressions in table 4 shows that MOWN, NEDED FSIZE are negatively related to ETR while BSIZE, BDIV, INDEP, ROA and LEV are positively related to ETR. Meanwhile, Board diversity (BDIV), Managerial ownership (MOWN), Independent directors (INDEP) and Non-executive (Outsider) directors (NEDED) are statistically significant at 5% and 1% level (t= 0.1640, 1.2809, 0.2887, and 0.2353 respectively). Reported R square of 0.5467 indicating that 54.67% of the variability of the ETR is explained by the independent variables.

With respect to BSIZE, t>a (0.4350>0.0587) signifies insignificant impact BSIZE on TA of Nigerian companies. The study supports the findings of (Khaoula *et al*, 2012) and (Kraft, 2014) who found no significance among the variables in the Tunisian and Germany contexts respectively. However this contradict the work of (Zemzem, *et al,* 2013) that finds that board size is significant to TA of listed French companies.

Board diversity was found to exert significant influence (t<a) on TA in Nigeria such that a person increase in the number of women on the board, induces 0.7439 corresponding increase in effective tax rate (ETR). This implies that increase in the number of women on the board

significantly reduces TA; thus the null hypothesis is rejected. This result corroborates the studies of (Francis, Hassan, Wu, Yan, 2014) and (Boussaidi and Hamed, 2015); in America and Tunisia respectively, which revealed that gender diversity on the board was very significant.

Further analysis reveals a significant positive relationship between INDEP and ETR in Nigeria since t<a Nigeria. This implies that existence of a higher percentage of independent directors on the board increases the effective tax rate; which by inference lowers TA/ impacts negatively on tax aggressiveness. This result agrees with the work of (Riwawan, 2013), in Thailand, but contradict the works of (Martinez *et al*, 2015) and (Jalali *et al*, 2013) which showed INDEP had no significant effect on the corporate tax planning of Brazilian and Iranian firms respectively. Such divergence might result from peculiarity of the regulatory bodies and how they monitor compliance with codes of best practices; since SOX Act, provides that the existence of an independent director on the board makes a board more independent.

Conversely, (MOWN) has a negative significant impact on effective tax rate. This implies that a unit increase in the number of shares held by directors leads to -2.9224 reduction in ETR (increases TA activities). Hence, the higher number of shares held by directors in Nigeria the higher the TA activities they are involved in. Usually, control and ownership are separated and as such, the potential existence of agency conflicts is envisaged. However, insider ownership helps to reduce this conflict as managers are also shareholders, therefore they will be more averse to implement decisions or to invest in non-value maximizing activities. Therefore, personal gains are enhanced because more money saved through TA is gained back in form of dividend and improved capitalization. The finding is consistent with the works of (Boussaidi *et al*, 2015) and Ying, 2011) which revealed the existence of negative significant relationship between the MOWN and TA.

The study revealed further the existence a negative relationship between (NEDED) and ETR which means that a person increase in the number of non-executive directors on the board leads to -0.9216 reduction in ETR (increase in TA) in Nigeria financial service companies. This result was consistent with the work of (Jalali and Jalali, 2013) and (Florackis, 2008), which showed that more non -executive members of the board did not show a positive and significant relation with TA in Iran. This might be because these executive directors play passive roles in company policies, as they are less informed because their appointments are mostly politically motivated in Nigeria

Consequently, none of the control variables (Return on Asset, Leverage and Firm size) were significantly associated with TA (Since t>a in all cases).

## Conclusion Recommendations

Based on the findings of the study, it was concluded that there exist a significant but varying relationship between board characteristics and TA of quoted financial service companies in Nigeria. Specifically, board size and firm size have insignificant impact on TA in Nigeria, but the more the number of independent directors on the board and increase in the number of women on the board significantly reduces TA of Nigerian companies. This indicates that size (board or firm) are not of importance but how independent the directors are in making uninfluenced decisions regarding tax planning and this is reflected in women being corporate governance compliant (being less tax aggressive) than men. More so, the more the proportion of non-executive directors on the board, the more the increase in tax aggressiveness by Nigerian companies.

In line with the conclusions reached, the following recommendations are put forward for financial service firms in Nigeria:

1. They give less attention to the BSIZE, but rather focus on the quality, competence and integrity of the members of the board in terms of cognate experience and expertise on board matters with a view to reducing TA;
2. Better involvement of female as well as independent directors on the board should be encouraged as their presence reduces TA;

CBN and SEC should monitor/minimize proportion of shares held by directors in such firms as managerial ownership seems to strengthen tax aggressiveness as managers enhance their personal gains through rent extraction that can be both enabled and masked by opaque tax avoidance activities.

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