Socially Responsive Endeavour And Tax Evasive Behaviour of Quoted Firms In Nigeria

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Abstract

Socially responsive endeavour (SRE), in organized industrial settings, connotes corporate social responsibility (CSR) in actuality. It is a pragmatist disposition that preferentially commends itself for adoption as an uncommon conceptual nomenclature in socio-analytical architecture. Utilizing requisite data from 13 firms featured among top 30 on the Nigerian Stock Exchange (NSE), this study examined the relationship between two SRE dimensions (governance improvement and social investment) and tax evasive behaviour (TEB). Data collected was Analysed using descriptive statistics as well as correlation and regression analyses, with consideration of robust, fixed and random effects. The findings indicated that social improvement has significant relationship with TEB, while governance improvement is not significantly associated with the tendency. In the light of these, it was recommended that government and listed corporate entities should mutually accentuate better sensitizing, higher incentivising, and greater synergizing in terms of fiscal management and business environment enhancement. This behavioural antidote is imperative for overall systemic sustainability.

Key Words: Fiscal inclusiveness, Social responsiveness, Tax effectiveness.

1. Introduction

In modern day economies, the relationship between socially responsive endeavour (SRE) andtax evasive behaviour (TEB) continues to generate research interest, particularly as corporate outfits seek to minimize outflows and maximize inflows in favour of shareholders. These concerns often feature in scholarly contributions as corporate social responsibility (CSR) and tax evasion (or aggressiveness) respectively. In carrying out such studies, some researchers adopt a mono-dimensional approach, using CSR composite data; while some others adopt a multi-dimensional approach, utilizing major analytical components of CSR. Contributions identified with the former approach are criticised for shrouding individual predictor components, thereby minimizing constituent materiality and affording grounds for manoeuvrability (Adewuyi & Olowookere, 2010; Gregory, Tharyan & Whittaker, 2014).

To fix such reservations, the analytical advocacy goes in favour of the latter approach, as exemplified by the works of Lanis & Richardson (2013) in Australia; Laguir, Staglianò & Elbaz (2015) in France; Landry, Deslandes & Fortin (2013) in Canada; and Hoi, Wu & Zhang (2013), Huseynov & Klamm (2012), and Lanis& Richardson, 2015) in the United States (US).Given that tax avoidance is apparently allowable in corporate fiscal behaviour analysis, it becomes more compelling for investigations to address tax evasion, which is designated herein as TEB. Towing this path in basis articulation, Siyanbola (2016), also featured environmental and community involvement among the predictor dimensions. This study, therefore, identifies with the multi-dimensional approach in examining the relationship between SRE and TEB, beaming on top quoted firms in Nigeria. The SRE component features are governance improvement and social investment, while effective tax rate is the proxy for TEB. Examining the relationship between the focal variables in the light of the possibility of manoeuvrability, the pertinent research questions were thus:

- To what extent is governance improvement related with tax evasive tendency?
- To what extent is social investment dimension related with tax evasive tendency?

Progressing with these, the hypotheses elicited are:

Ho_1: Governance improvement has no significant relationship with evasive tax behaviour.

Ho_2: Social investment has no significant relationship with evasive tax behaviour.

Basically, studies on CSR are anchored on the legitimacy theory which asserts that social contract exists between business and society, which seeks not only the fundamental satisfaction of management, employees, and shareholders but also the all-encompassing satisficing of sundry stakeholders.

2. Literature Review

Tax revenue occupies a strategic place in the fiscal transmission mechanism of government. From the annals of the Federal Ministry of Finance in Nigeria, the Federal Government, in the exclusive legislative list, has several responsibilities which borders on accounts of the federation; arms, ammunition, defence and national security; aviation, railways, federal trunk roads and maritime matters; immigration and internal affairs; financial laws, currency issue and exchange control; and more, including labour and public services of the federation, and establishment of federal agencies. For these are other running concerns, huge financial commitment is required, hence Gbosi (2008) contends that in both developed and less-developed nations, taxes serve several socio-economic functions such as:

- provision of revenue for government to provide essential goods and services,
- regulation and control of commodities considered to be harmful to health,
- regulation and control of consumption of expensive commodities such as alcoholic drinks,
- protection of infant industries from unhealthy foreign competition thereby reducing unemployment;
- promotion of business and commerce by granting subsidy to the ones being favoured;
- inhibition/control of monopoly thereby fostering healthy competition;
- minimization of inflation by making less income available to households and businesses; and
- distribution of income, as persons with higher income has to pay more to the fiscal coffers of the government.

Functionally, Hubert (1979) expresses *tax yield* as a product of the object to which tax is applied (which is designated as the *tax base*) and the amount of tax applied per unit of the tax base (designated as the *tax rate*). Under the central administrative oversight of the Federal Ministry of Finance in Nigeria, a profile of tax jurisdiction is highlighted as follows:

a) *For the Federal Government:*
- Companies Income Tax,
- Petroleum Profits Tax,
- Value Added Tax,
- Education Tax (on companies only),
- Capital Gains Tax (on corporate bodies and Abuja residents),
- Stamp Duties (on corporate bodies),
- Withholding Tax (on companies),
- Personal Income Tax (on personnel of the Armed Forces, Police, External Affairs and Abuja residents),
- Mining Rents and Royalties,
- Custom Duties (i.e. Import Duties and Export Duties), and
- Excise Duties.

b) *For the State Government:*
- Personal Income Tax (on residents of a State),
- Capital Gains Tax (on individuals only),
- Stamp Duties (on individuals only),
- Road Taxes (e.g. vehicle licences),
- Betting and Gaming Taxes,
- Business Premises and Registration Levies,
- Development Levy (with fixed maximum per annum on taxable individuals only),
- Street Name Registration Fees (State Capital only),
- Right of Occupancy Fees (State Capital only),
- Market Fees (where the market is financed by State Government), and
- Miscellaneous Revenues (e.g. Rents on Property).

c) *For the Local Government:*
- Tenement Rate,
- Shop and Kiosk Rates
- Liqour Licence Fees,
- Slaughter Slab Fees,
- Marriage, Birth, and Death Registration Fees,
- Street Name Registration Fees (excluding State Capital),
- Market/Motor Park Fees (excluding State-owned markets),
- Domestic Animal Licence Fees,
- Bicycle, Truck, Wheelbarrow, Carts, and Canoe Fees,
- Right of Occupancy Fees (excluding State Capital), and
- Cattle Tax.

For government to attract greater revenue harvest, Akpa (2008) harps on the imperativeness of flexible tax system that affords room for periodic reforms. He enumerates the specific objectives of tax system reforms in Nigeria to include creating a conducive climate for the promotion of economic development through encouragement of savings and investment, thus minimizing tax evasion; and making tax authorities at all levels of government to be effective and efficient towards raising the productivity of the machineries for revenue administration, thus enhancing yield from approved sources. Highlighting the features of the currently revised National Policy in Nigeria, Adeosun (2017) contends that the essence is to foster orderly development of the Nigerian tax system, while ensuring competitive and robust macroeconomic environment. Most particularly note-worthy is the recent increase in Value Added Tax (VAT) on luxury goods, particularly affecting champagne, yachts, private jets, luxury cars based on engine capacity, expensive cosmetics/perfumes, top-notch mobile phones (iPhone and iPad), designer watches, jewelry and retailer clothing. According to Eke (2017), the increasing gap between the rich and the poor undermines development by hindering inclusive economic progress, weakens democratic life and threatens social cohesion. This is further aggravated by factors such as:
- poor domestic policy implementation,
- financial globalization,
- skill-based technical change with associated wage increase,
- monetary policies that deemphasize economic growth,
- fiscal policies that prioritize fiscal consolidation at the expense of social expenditure,
- labour policies that weaken workers' bargaining power, and
- retrogressive tax regimes.

Accordingly, stakeholders are required to redouble political commitment to social protection at all levels of governance, while government allocates more resources to boost social protection programmes, with more emphasis on strengthening equity and good governance features. In complying with the associated fiscal expectations, traces of manoeuvrability have been noticed. In a study conducted by Hoi, WU & Zhang (2013) in the US, multiple dimensions of tax aggressiveness were examined over the period 2003-2009. The focal variables included discretionary book-tax difference, permanent book-tax difference, change in effective tax rate, and tax shelter (proxies for tax aggressiveness); and negative social ratings (proxy for CSR). The results indicated that firms with negative ratings have high tax aggressiveness.

In France, Laguir, Staglianò & Elbaz (2015), examined the impact of CSR activities on tax aggressiveness for the period 2003-2011. The composite criterion variable was disaggregated into four dimensions, thus featuring social, governance, economic, and environmental concerns. The results revealed that tax aggressiveness is a function of the nature of CSR. The social and economic dimensions had more dominant (significant) impact on tax aggressiveness, positively and negatively respectively. These outcomes reveal that the more firms are socially responsive (particularly diligent and expedient in governance, employee composition/relations, environment/human rights, and ethical business behaviour), the lower their tax evasive tendency. **A synoptic illumination of focal research variables subscribed in this study is presented in Table 1:**

Table 1: Highlight of Research Variables

Variable	Contextualization
Effective tax rate (etr)	etr, the proxy for tax evasion, represents tax paid in year t+1 divided by profit before tax of year t, as adopted by Lanis & Richardson (2012), Hoi, WU & Zhang (2013), and Laguir, Staglianò & Elbaz (2015).
Socially responsive endeavour (sre_1)	sre_1, symbolizing the governance improvement dimension has disclosure index ranging between 0 and 1, as adopted by Fodio, Abu -Abdissamad & Oba (2013) and Lanis & Richardson (2012).
Socially responsive endeavour (sre_2)	sre_2, symbolizing the social investment dimension has disclosure index ranging between 0 and 1, as adopted by Fodio, Abu -Abdissamad & Oba (2013) and Lanis & Richardson (2012).
Dominant control variable (cv_1)	cv_1, symbolizing capital intensity relativity represents net property, plant, and equipment divided by total assets, as adopted by Huseynov & Klamm (2012), and Landry, Deslandes& Fortin (2013).
Dominant control variable (cv_2)	cv_2, symbolizing corporate financial leverage represents interest bearing debt divided by total assets, as adopted by Huseynov & Klamm (2012), and Landry, Deslandes& Fortin (2013).
Dominant control variable (cv_3)	cv_3, symbolizing comparable firm size is represented by natural logarithm of total assets, as adopted by Huseynov & Klamm (2012), and Landry, Deslandes & Fortin (2013).
Dominant control variable (cv_4)	cv_4, symbolizing corporate return on equity represents profit before tax divided by shareholders funds, as adopted by Laguir, Staglianò & Elbaz (2015).

Source: Synoptic literary profile

3. Methods

This study has 10-year time frame (2006-2015) and focuses on top quoted firms on the Nigerian Stock Exchange (NSE). These firms are distinguished majorly by market capitalisation and liquidity fundamentals (NSE, 2013; Siyanbola, 2016). Among them are 13 firms marked out as featuring regularly on 31st December of each financial year, especially those defined for the purpose of analysis. They constitute the focal sample of this study, of which the model facilitating the relational analysis is specified thus:

$$etr = \beta_0 + \beta_1 sre_{1it} + \beta_2 sre_{2it} + \beta_3 cv_{1it} + \beta_4 cv_{2it} + \beta_5 cv_{3it} + \beta_6 cv_{4it} + \varepsilon_{it}$$

Where: etr = Effective tax rate,

sre_1 = Governance investment, the first predictor dimension,

sre_2 = Social investment, the second predictor dimension,

cv_1 = Capital intensity relativity, the first dominant control variable,

cv_2 = Corporate financial leverage, the second dominant control variable

cv_3 = Comparable firm size, the third dominant control variable; and

cv_4 = Corporate return on equity, the fourth dominant control variable.

i = Sampled firms (1 to 13),

t = Time frame/period (2006-2015),

β_0 = Intercept, and

$\beta_1 - \beta_6$ = Variables' slope coefficients.

4. Results

From NSE profiling, four sectors account for the top 30 listed firms, of which the more distinguished 13 made the sample. Accordingly, the sector groupings include agriculture, conglomerates, construction/real estate, consumer goods, financial services, healthcare, information and communication technology (ICT), industrial goods, natural resources, oil and gas, as well as services and utility. Aggregating these industrial constituents within the specified time frame yields 130 sample observations, composed of:

- Consumer goods firms, presenting50 (38.46%),
- Financial services firms, presenting 40 (30.77%),
- Oil and gas firms, presenting 30 (23.08%), and
- Healthcare firms, presenting10 (7.69%).

In addition to descriptive statistics, the more analytically assertive proceedings involved ascertaining normality of data, multicollinearity, heteroscedasticity, fixed and random effects. The computations were facilitated by Stata 12.0 software package, with capacity to detect and remedy possible infractions. Given peculiar kurtosis manifest, Spearman Correlation was employed, as multicollinearity was tracked with correlation coefficients and variance inflation factor. Analysis of the homogeneity of variance of error term involved heteroscedasticity test, while there was relative absence of outliers among the regression residuals. Progressing with robust regression, the time series and cross sectional data were further treated under the fixed effects model (FEM) and random effects model (REM) frames. The sector highlights are presented in Table 2, while descriptive statistics and other assertive specifics are presented in Tables 3 to 6:

Table 2: Quoted Industrial Sector Constituents

NSE Classification	Freq.	Percent	Cum.
Financial Services	40	30.77	30.77
Consumer Goods	50	38.46	69.23
Oil and Gas	30	23.08	92.31
Healthcare	10	7.69	100.00

Source: NSE Factbook Profile

Table 3: Analytical Descriptive Statistics

Variable	N	Mean	Standard Deviation	Minimum	Median	Maximum
Etr	130	.2032	.1134	-.23	.22	.60
sre_1	130	.2057	.2848	0	0	.88
sre_2	130	.4272	.2323	0	.50	.83
cv_1	130	.2903	.2443	0	.28	.98
cv_2	130	.3015	.3182	0	.17	.89
cv_3	130	10.9012	.4558	9.41	11.02	11.60
cv_4	130	.3222	.5221	-3.69	.27	1.36

Source: Research Data (2016).

Table 4: Analytical Correlation Statistics

Variable	Etr	sre_1	sre_2	cv_1	cv_2	cv_3	cv_4	VIF
etr	1							
sre_1	-0.12	1						4.91
sre_2	-0.14	0.73*	1					3.18
cv_1	0.24*	0.03	-0.16***	1				2.65
cv_2	-0.23*	0.22***	0.24*	-0.61*	1			2.42
cv_3	0.08	0.39*	0.18**	-0.09	0.45*	1		1.83
cv_4	0.31*	0.12	-0.03	0.63*	-0.31*	0.12	1	1.32

* Denotes significance at 1% level.
** Denotes significance at 5% level.
*** Denotes significance at 10% level.

Source: Research Data (2016).

Table 5: Analytical Regression Statistics

Variable	**Predicted sign**	**OLS Robust**	**Fixed Effects Model**	**Random Effects Model**
sre_1	-	-.0329	.0673	.0009
sre_2	-	.1146	.2366	.2395*
cv_1	+	-.0874	-.2045**	-.1753**
cv_2	+	-.1142**	-.1169	-.1111*
cv_3	+	.0702***	.0067	.0345
cv_4	+	.0877***	.0775***	.0811***
cons		-.5508**	.1420	-.1690

From the statistical features, the average effective tax rate (etr) is 20%, which is below 30% basis rate. Also, the focal socially responsive endeavour (sre) dimensions indicated moderate disclosures, as governance (sre_1) and social investment (sre_2) disclosure recorded 54% and 60% respectively. Average investment, representing, capital intensity relativity (cv_1) was 29% of their total assets. The interest bearing debt, representing corporate financial leverage

(cv_2) was 30% of total assets; comparable firm size ((cv_3) averaged 10.9, with a standard deviation of 11.02; while earnings (return on equity), representing corporate financial performance (cv_4) averaged 32%. In view of these statistical highlights, effective tax rate is significantly and positively related with capital intensity relativity (cv_1) and corporate financial performance (cv_4) indicated by return on equity, but not with corporate financial leverage (cv_2) and comparable firm size (cv_3). This implies that higher levels of interest-bearing debt are associated with higher TEB (decreasing etr); and higher levels of investment in capital assets and attendant improved financial performance are associated with lower TEB (increasing etr). Ultimately, therefore, the analytical outcomes of this study evoke:

- acceptance of null hypothesis one, affirming that governance improvement is not significantly associated with TEB; and
- acceptance of alternate hypothesis two, affirming that social investment is significantly associated with TEB.

The works of Hoi, WU & Zhang (2013), Huseynov & Klamm (2012), and Lanis & Richardson (2013) lend credence to these analytical outcomes.

5. Discussion

The governance improvement dimension negatively but insignificantly relates with TEB. This is affirmative of null hypothesis one; and reasonably consistent with the position of Laguir, Staglianò & Elbaz (2015) who examined the effect of CSR dimensions on tax aggressiveness in France. The social investment dimension is also positively and significantly related with TEB. This is non-affirmative of null hypothesis two; and also in tandem with the position of Laguir, Staglianò & Elbaz (2015). Regarding the control variables, capital intensity relativity and corporate financial leverage are negatively related with effective tax rate; corporate financial performance (indicated by return on equity) is negatively and significantly related with effective tax rate; while comparable firm size is not significantly related with effective tax rate. The intrigues involving the choice of treatment of depreciation expenses for tax and financial reporting purposes are worthy of cautious consideration, particularly with respect to capital intensive firms (Hoi, WU & Zhang, 2013; Laguir, Staglianò & Elbaz, 2015; and Lanis & Richardson, 2015). Again, capital intensity relativity is negatively and significantly related with effective tax rate; consistent with the result obtained by Huseynov & Klamm (2012) but differing with the position of Laguir, Staglianò & Elbaz, (2015) and Lanis & Richardson, 2016).Albeit, they contend that higher capital intensity relativity is related with lower TEB.

Considering the effect of corporate financial leverage – driven incentives on evasive tax behaviour, tax deductibility of interest expenditure is material (Lanis & Richardson, 2016). Hence, as capital intensity relativity is negatively and significantly related with TEB, it implies that the more firms finance with interest bearing instruments, the lower their TEB. This synchronizes with the opinion of Hoi, WU & Zhang (2013), and contrasts the stance of Huseynov & Klamm (2012) and Lanis & Richardson (2016). However, comparable firm size is not significantly related with evasive tax behaviour, which contrastingly challenges the position of Laguir, Staglianò & Elbaz, 2015 (2015) and Lanis & Richardson (2015). Thus, the large firms in the period under study did not leverage on economic/political fortunes to modify their tax aggressiveness. Regarding profitability, the results affirm that corporate financial performance (indicated by return on equity) is positively and significantly related with TEB. This sustains the stance of Huseynov & Klamm (2012) that higher corporate profitability is associated with higher evasive tax behaviour (as effective tax rate decreases).

6. Conclusion

This study examined the relationship between disaggregate SRE dimensions with TEB, focusing on top listed firms on the NSE. Two critical dimensions, governance improvement and social investment, were examined in relation to effective tax rate (the proxy for TEB). The analysis involved descriptive statistics and other assertive tests for ascertaining normality of data, multicollinearity, heteroscedasticity, fixed and random effect estimates. The results affirmed that governance improvement is not significantly related with TEB; while social investment is significantly related with TEB. The social investment dimension was particularly featured as pivotal antidote for TEB in view of the position that the more a firm disburses social investment outlay and discloses adequately, the lower the tax evasive tendency. This is actually auspicious for today's governmental dispensations which are in dire need of fiscal resources for national economic recovery and growth (Agundu, 2012; 2016).

Concerning the control variables (capital intensity relativity, corporate financial leverage, comparable firm size, and corporate financial performance),the extent of relationship with ETB is potent. For capital intensity relativity, in particular, more investment in property, plant and equipment precipitates greater corporate financial economies. To sustain the flow, it is imperative to advance the objectives of tax system reforms, which Akpa (2008) broadly outlined to include:

- enhancing of fair and equitable taxation of individuals,
- ensuring investment decisions free of distortion,
- encouraging fair allocation of savings amongst investment opportunities,
- ensuring that incentives to hard-work or risk bearing in business are sustained,
- attracting foreign investments or at least avoiding capital flight to countries with lower taxes,
- reducing tax evasion, tax avoidance and the growth of underground economy as well as encouraging voluntary compliance by taxpayers, and
- reducing complexities in the Nigerian tax system to the advantage of tax administrators and taxpayers.

Furthermore, in the interest of continuous systemic vitality and viability, government and strategic corporate entities, in particular, should mutually ensure better sensitizing, higher incentivising, and greater synergizing in the focal areas of fiscal management and business environment enhancement.

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