CORPORATE TAX PLANNING, BOARD GENDER DIVERSITY AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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ABSTRACT

Governments at all levels are concerned about raising more revenue to finance their expenditure responsibilities, while management and investors are interested in a conducive business environment with a reduced tax burden which will lead to effective and efficient financial performance. The objective of the study is to examine the moderating role of board gender diversity on the relationship between tax planning and firm performance of listed consumer goods firms in Nigeria. The population consists of seventeen (16) listed consumer goods firms in Nigeria Exchange Group during the period 2013-2022. The data gathered was analyzed using the panel least square. The findings from the direct relationship revealed that cash effective tax rate has a significant impact on financial performance. While GAAP effective tax rate has no significant influence on financial performance. The result from the moderating model revealed that the presence of female members on the board increased the positive impact of corporate tax planning on financial performance. The study concludes that tax planning is a catalyst for the financial performance of listed consumer goods firms in Nigeria. The study recommends that the role of female board members on the board should be given priority when it comes to corporate tax planning and financial performance.

Keywords: Board Gender Diversity, Corporate Tax Planning, Effective Tax Rate, Financial Performance, Tax Saving.

JEL Classification: H25, M14, L25

1.0 INTRODUCTION

In the past, many listed firms have found it difficult to increase their performance because other sources of revenue do not yield income in the real term. The tax payment sometimes seems to be too heavy on the proposed profit, thereby eroding it completely. It is generally believed that the tax burden is inversely proportional to firm performance; that is to say, the lesser the tax payment, the increase in profit after tax of firms. The heavy tax rate currently in Nigeria, standing at 30% has incidentally made so many deposit money banks either skillfully avoid or evade tax payment, ultimately leading to a total decline in economic development in the country (Obi et al., 2022).

In the world, taxation has been a major menace for the past decades, corporate taxes denote one of the main sources of income to finance government budget, but also an important determinant of capital investment in every nation, the governments are concerned about raising more revenue to finance its expenditure responsibilities while investors are interested in a conducive business environment with a reduced tax burden (Pitulice et al., 2016). Similarly, Lawal et al. (2020) opined that tax is the most important source of income to the government of every developed and developing economy which is presumed to be the means of support of any government, because taxes provide revenue to fund activities, such like health facilities, education, roads, electricity, security and employment. Thus, the fiscal policy of every country has to strike a balance by including tax incentives that could make a country attractive meaningful, and sustainable economic investments which will not have a negative effect on corporate financial performance.

In Nigeria, the issue of corporate tax after profit and financial performance of consumer goods firms has been a long-term controversy between stakeholders, researchers, employees, and shareholders. Considerable options have been channeled out on the best way to boost the performance of banks through other sources (fee and investment income) as against the tax burden levied on the banks (Obi et al., 2022).

Performance measurement is an important aspect of every business organisation. The objective of measuring performance does not only cover how a business is performing but also gives an insight into how a business can perform better (Lawal et al., 2024). Performance is of various types, which are accounting performance, market performance, and non-financial performance. This study is limited to the accounting performance of listed consumer goods firms in Nigeria. Financial performance is a determinant of an organization's income, profits, and increase in value as evidenced by the appreciation in the entity's worthiness. Financial performance evaluation is designed to provide answers to a broad range of important questions, some of which include whether the company has enough cash to meet all its obligations and whether it is generating a sufficient volume of sales to justify recent investments (Dong & Su, 2010). Taxes on corporate profits are mandatory and usually constitute a large outflow for firms that, if not planned, lead to the disproportionate and unwilling transfer of corporate resources to the government with its negative impact on the operating capacity and financial performance. Tax planning is the wilful and different lawful ways a taxpayer tries to reduce or eliminate his/her tax liabilities, while tax evasion is the unlawful act to prevent payment of tax. The struggle leaves the government with less revenue and, at the same time, has brought companies to many unresolved tax issues with the government. Due to the frustration, firms now employ the services of financial experts who can manipulate tax laws to reduce the burden of corporate taxation on them, which is known as effective tax planning.

Gender diversity is the proportion of women on the board to the total number of board members. Previous studies such as Kiliç and Kuzey (2016) and Wu (2016), showed that the inclusion of female directors on the board had a significant positive impact on firm performance. In the same vein, prior studies showed that gender-diverse boards are active in contributing to social issues, such as sponsoring charities and enhancing stronger relationships with surrounding communities, shareholders, and other stakeholder groups (Williams, 2003; Bernardi & Threadgill, 2010). Therefore, the presence of women directors on the board is expected to play a key role in influencing the relationship between corporate tax planning and financial performance. As a result, board gender diversity is used in this study as a moderating variable.

Based on the challenges of company income tax on the performance on an organization, among the few empirically feasible studies on impact of company income tax and financial performance of selected listed companies in developed, developing countries and Nigeria are the studies conducted by (Gallemore,et al., 2017; Neghina, 2012;; Syed et al., 2011; Obi et al., 2022; Chude & Chude, 2015) which produced mixed and inconclusive findings. Similarly, none of these studies have examined the role a moderating variable can play in influencing the relationship between corporate tax planning and financial performance. Thus, this study adds to the body of knowledge by examining the moderating role of board gender diversity on the relationship between corporate tax planning and the financial performance of consumer goods firms in Nigeria during the period 2013 to 2022.

2.0 REVIEW OF THE LITERATURE

2.1 Financial Performance

Performance is of various types, which are financial performance and non-financial performance. This study is limited to the financial performance of the listed consumer goods firms in Nigeria measured by the Return on Asset (ROA). Financial performance is essential to the survival of firms in a competitive and uncertain environment. According to Barnett and Salomon (2012), financial performance is conceptualized as the extent to which a firm increases sales, profits, return on equity, and return on assets. These are indicators of financial performance and manifest the well-being of a firm collectively.

2.2 Taxation

Scholars provide many definitions of taxation. The National Tax Policy (2012) provides that taxation is the process of collecting taxes within a particular location. It is also seen as a pecuniary burden laid upon individuals or property to support government expenditure. According to Syed et al. (2011), company income tax is one that is charged on the profits generated by companies, public corporations, and unincorporated associations such as industrial and provident societies, clubs, and trade associations, after every accounting period.

2.2.1 Cash Effective Tax Rate

The accrual concept in accounting allows for the recognition of income (expense) when it is earned (incurred) and not when it is received (paid). This creates a problem in both accounting ETR and current ETR as the influence of accrual management, such as valuation allowance changes, and employees' stock options affect the numerator and they do not measure the actual tax paid per unit of income earned (Lee et al., 2015), hence, the superiority of cash ETR which is derived by dividing the cash tax paid (found in statement of cash flow) by pre-tax accounting income. This measure, therefore, helps to determine the actual tax avoided per unit of income and deferral tax strategies. The cash effective tax rate (CETR) is measured using operating cash flow (Hanlon et al., 2010; Salihu et al., 2013). The authors asserted the superiority of this measure over other ETR-based measures as it may capture the conforming type of tax avoidance.

Using data from manufacturing companies listed on the Indonesia Stock Exchange for the period 2014-2018, Maharani et al. (2020) found that tax planning had a significant negative effect on firm value. Timothy et al. (2020) examined the relationship between corporate tax planning, board compensation, and firm value and moderating capacity on any association between tax planning and firm value. a sample of 71 profitable non-financial and non-oil and gas firms publicly listed on the Nigerian Stock Exchange (NSE) during the period and found that there is a positive relationship between tax planning, board compensations, and firm value, while board compensations failed to moderate the relationship between tax planning and firm value. Umeh et al. (2020) examined the effect of tax planning on firm value in twenty-one quoted consumer goods manufacturing firms in Nigeria during the period 2009 to 2018 and found that the Effective tax rate had a significant negative impact on firm value. Whereas, the study found that book-tax difference had a significant positive impact on firm value.

Using data from twelve (12) listed firms on the Nigerian Stock Exchange between 2011 and 2020., Akadakpo and Akogo (2022) concluded that company income tax had a positive and significant effect on profit after tax (PAT) and returns on equity (ROE). In another study, Williams et al. (2023) examined the effect of corporate tax on the financial performance of sixteen listed consumer goods companies in Nigeria from 2011 to 2021 and found that company income tax and value-added tax negatively affect financial performance. The finding of the study also revealed that education tax has a significant positive effect on financial performance. Thus, the following hypothesis is formulated for the study.

H_{01}: Cash effective tax rate does not significantly influence the financial performance of listed consumer goods firms in Nigeria.

2.2.2 Generally Accepted Accounting Practice (GAAP) Effective Tax Rate

These are measures that capture tax avoidance by dividing tax expense as recorded in the financial statement by pre-tax accounting income or cash income (Hanlon et al., 2010). The resulting ETR can broadly be grouped into average ETRs and marginal ETRs. According to Gupta and Newberry (1997), the average ETR, which has mostly been used in tax debates and reforms by policymakers and researchers, is better used when measuring the "distribution of tax burdens across firms or industries whereas marginal ETRs are appropriate to analyze the incentives for new investments". The effective tax rate can be defined as the average rate of tax payable by an organization or person. It is the actual amount of federal income tax payable on a person’s income, excluding self-employment taxes, local and state taxes, and FICA taxes, the effective tax rate can be found by dividing the tax expense by the earnings before tax of the company.

Ftouhi et al. (2015) examined whether corporate tax planning behavior increases firm value in European context during the period 2008 to 2012 and found that corporate ETRs are below the statutory tax rate. Indeed, increasing the difference between tax statutory rate and tax rate effectiveness leads to increased tax savings. Nwaobia et al. (2016) examined the effect of tax planning on the firm value of the Nigerian consumer goods industrial sector for the period, 2010-2014 and concluded that the joint effect of the considered tax planning proxies on the firm value was significant. The study further found that effective tax rates are positively and significantly related to firm value.

Fagbemi et al. (2019) examined the impact of corporate tax planning on the financial performance of systemically important banks in Nigeria and concluded that effective tax rate has a negative and significant impact on financial performance. The study concluded that corporate tax planning affects financial performance depending on the adopted tax planning strategies. In a study, Omesi and Appah (2021) investigated the effect of corporate tax planning on the firm value of listed consumer goods companies in Nigeria for the period 2015 to 2019. Using pooled ordinary least square, the finding of the study revealed that a negative and insignificant relationship exist between effective tax rate, tax savings, and corporate firm value.

Abdullahi et al. (2021) examined the impact of corporate tax planning on the financial performance of listed companies on the Nigeria Stock Exchange during the period 2010 to 2018 and found that the inventory intensity revealed no relationship with Return on Asset (ROA). The result implies that a percentage increase in inventory intensity of the company might not in any way increase financial performance. Egbadju and Odey (2022) examine the impact of tax aggressiveness on the financial performance of 15 consumer goods firms quoted on the Nigerian Exchange Group during the period 2009 to 2019. and concluded that the random effect of ordinary least square revealed that the effective tax rate (ETR) is negatively and statistically significant with firm performance represented by ROE. Using data during the period 2006 to 2020 from the downstream oil and gas in Nigeria, Osamor (2022), investigated the effect of company income tax on firms' financial performance and concluded that company income tax had a significant impact on the financial performance of the firms. Thus, the following hypothesis is formulated for the study. Eche et al. (2023) examined the impact of corporate tax planning on the financial performance of listed deposit money banks in Nigeria during the period 2010 to 2019 and concluded that debt tax shield has a significant effect on Tobin Q, while income effective tax had insignificant effect on Tobin Q.

H_{o2}: Effective tax rate (ETR) has no significant effect on the return on asset (ROA) of listed consumer goods firms in Nigeria.

2.3 Board Gender Diversity and Financial Performance

Gender diversity is defined as the ratio of female board members to all board members. Various studies have been conducted in the area of board gender diversity and firm performance, some found positive results, while some found negative results while other found no relation between the two variables. For instance, Julizaerma and Zulkarnain (2012) examined the association between gender diversity in the board of directors and firm performance of the companies listed in Bursa Malaysia for both Main and ACE market for the year 2008 and 2009 and found that a positive association exists between gender diversity and firm performance. This suggests that women directorship may influence firm performance

Simionescu et al. (2021) investigated the influence of board gender diversity on firms' accounting and market-based performance using a sample of Standard & Poor's 500 companies in the information technology sector during a period of over 12 years and found that board gender diversity had no statistically significant effect on ROA but had a positive influence on price-to-earnings ratio.

In another study, Ashikul et al. (2023) examined the impact of board gender diversity on the firm performance of nineteen European countries during the period 2010– 2020 and found that a gender-diverse board reports a statistically significant negative impact on return on asset and return on equity. Thus, the following hypothesis is formulated for the study.

H_{o3}: Board gender diversity does not moderate the relationship between corporate tax planning and firm performance

2.4 Theoretical Framework

Ability-To-Pay Theory of Taxation

Several studies on company income tax and firms' performances often used the ability-to-pay theory, contingency theory, and agency cost theory to explain the relationship. This study is anchored on the ability-to-pay theory. Kendrick (1939) propounded this theory, which states that taxes should be levied on individuals and companies according to their ability to pay. He stated that money for public expenditure should come from "him that hath" instead of "him that hath not". This implies that more tax burden should be placed on companies and individuals with higher income. In other words, individuals and companies should pay taxes according to what they earn. Someone who earns more should pay more tax, while an individual who earns less should pay less tax. For the purpose of banks' liquidity, which is the basis on which they can provide funds to private sectors for businesses, the ability to pay tax should be considered seriously to enable them to have enough liquid assets to give credit facility to organizations and individuals for their operations. This is in line with progressive taxation principles, fairness, and equity.

3.0 METHODOLOGY

This study adopted a correlation research design. The choice of correlation research design is based on the fact that the study relies on historical accounting data obtained from annual reports and accounts of the sampled firms**.** The population of the study comprises quoted consumer goods firms listed on the Nigerian Exchange Group (NXG) at the end of the 2022 financial year. The study was limited to all consumer goods firms using a purposive sampling technique. The study employed descriptive and inferential statistics in analysing the data for the study. Also, multiple regression was adopted in validating the hypotheses.

3.1 Measurement of variables

3.1.1 Dependent variables

The dependent variables of this study are ROA and Tobin's Q. ROA is the ratio of pre-tax profit divided by total assets. ROA is a comparison of net income over total assets. This accounting measure of performance is generally accepted as a valid measure of overall company performance (Core, *et al.,* 1999). The ROA provides information about the value added to the company that lead to better performance of that company. ROA is measure as the ratio of profit before tax divided by total assets.

3.1.2 Independent Variables

The independent variable is the corporate tax planning. Researchers in the field of corporate tax planning used different measures such as cash effective tax rate, GAAP effective tax rate, book-tax difference measures and a residual book-tax difference.

3.1.3 Moderating variable

The moderating variable in this study is the board gender diversity which is measured as number of female board members to total number of board members.

3.1.4 Control variables

In this study, two control variables are used. These are board size and firm size.

Table 1: Measurement and Operationalisation of Variables

Proxies	Measurement
Return on Asset (ROA)	The ratio of profit after scaled by total assets
Corporate Tax Planning = cash effective tax rate (CETR).	Cash ETR is the cash taxes paid, extracted from the cash flow statement scaled by cash flow from operating activity (Kalliopi, 2019).
Corporate Tax Planning = GAAP effective tax rate (GETR)	Total tax income divided by pre-tax income (Aburajab et al., 2019; Islam et al., 2023)
Board Gender Diversity (BGD)	Gender diversity is defined using ratio of female board members to total board members (Nadeem, 2019; Lawal et al., 2024).
Board Size (BSZ)	Board size is measured as the total number of board members both executives and non-executives (Abeysekera, 2010)
Firm Size (FSZ)	Natural logarithm of Total Assets (Alshhadat, 2017)

Source: Authors' Compilation 2024

3.2 Model Specification

This study adopted the model of Cordelia and Amah (2018) The study adopted a generalised linear regression model where multiple regression analysis was the statistical tools used for the analysis with the aid of STATA version 16. The econometric model is specified as follows:

PERF = $\dot{\alpha} + \beta 1\ (CIT) + \varepsilon_{it}$ .... Model 1

Where:

PERF = financial performance

$\dot{\alpha}$ = (alpha) showing constant effect of CIT on PERF

CIT = Company Income Tax

ε = Error term

This study therefore re-modified as stated below for the direct relationship:

$ROA_{it} = \beta_0 + \beta_1 GETR_{it} + \beta_2 CETR_{it} + \beta_3 BSZ_{it} + \beta_4 FSZ_{it} + \varepsilon_{it}$ .... Model 2

The following regression models are used to examine the impact of all the variables (independent, moderator and control) on firm performance

$ROA_{it} = \beta_0 + \beta_1 GETR_{it} + \beta_2 CETR_{it} + \beta_3 BGD + \beta_4 BSZ_{it} + \beta_5 FSZ_{it} + \varepsilon_{it}$ .... Model 3

This study introduced board gender diversity as a moderating variable. The following regression models are used to examine the moderating role of board gender diversity on the relationship corporate tax planning and financial performance.

$ROA_{it} = \beta_0 + \beta_1 GETR_{it} + \beta_2 CETR_{it} ++ \beta_3 GETR_{it}*BGD + \beta_4 CETR_{it}*BGD + \beta_5 BGD + \beta_6 BSZ_{it} + \beta_7 FSZ_{it} + \varepsilon_{it}$ .... Model 4

Where:
ROA_{it} = Return on assets
GETRit = GAAP Effective tax rate
CETRit = Cash Effective tax rate
BGD_{it} = Board Gender Diversity
BSZ_{it} = Board Size
FSZ_{it} = Firm size
ε_{it} = Error term
β_0 = Constant
β_1= Constant

4.0 RESULTS AND DISCUSSION

This section presents and discusses the results of the tests conducted on the data collected for the study. The results were presented using tables.

4.1 Descriptive Statistics

Table 2 presents descriptive statistics of the variables for the study.

Table 2: Descriptive statistics of the variables

Variables	Observation	Mean	Std. Dev.	Min.	Max.
ROA	160	0.129	0.102	-0.284	0.368
GETR	160	0.246	0.844	-5.947	4.585
CETR	160	0.246	0.458	-0.362	5.038
BGD	160	0.471	0.072	0.211	0.612
BSZ	160	9	2.404	4	15
FSZ	160	7	0.949	4	9

Source: Generated by the Authors 2024

Table 2 showed that the sampled Nigerian consumer goods firms have average ROA of 0.129. The mean value of GAAP effective tax rate of the sampled consumer goods firms is 0.246, meaning that on average, the firms profit after tax accruable to owners of the firms is 24.6%. Similarly, the mean value of cash effective tax rate of the sampled consumer goods firms is 0.246, meaning that on average. The mean value of board gender diversity of the sampled consumer goods firms is 0.47. Board size has a minimum value of four (4) and a maximum value of fifteen (15). The mean value of firm size is seven and the maximum is nine.

4.2 Correlation Matrix

The correlation matrix as presented in Table 2 shows the association between dependent variables and explanatory variables.

Table 3: Correlation Matrix

Var.	ROA	GETR	CETR	BGD	BSZ	FSZ	VIF
ROA	1.00						
GETR	0.192	1.00					1.02
CETR	0.128	0.067	1.00				1.02
BGD	-0.015	0.011	0.002	1.00			1.22
BSZ	-0.168	-0.075	0.054	-0.413	1.00		1.44
FSZ	-0.081	0.033	0.114	-0.285	0.463	1.00	1.31

Source: Generated by the Authors 2024

Table 3 presents the correlation analysis and VIF of the study. Variance inflation factors (VIF), tolerance levels and the correlation matrix were used to check for multicollinearity. The results demonstrated a lack of multicolliearity since the minimum VIF is 1.02 and the maximum VIF is 1.44 respectively.

4.3 Regression Results of Direct Relationship

The regression result of the random regression estimation technique is presented in Table 4. The Table presents the coefficient and probability of the RE.

Table 4: Summary of Random Effect Regression of Direct Relationship

Variables	Coefficients	Prob.
Cons	13.499	0.000
GETR	-0.085	0.514
CETR	0.197	0.003
BSZ	0.239	0.000
FSZ	-9.238	0.000
R-square within	0.33	
R-square between	0.49	
R-square overall	0.30	
Wald chi2	28.56	
Prob. Chi2	0.0000	

Source: Results Output from STATA

The proportion of the overall variance in the dependent variable that the independent variables collectively explained was given by the cumulative R-squared (R2) of 0.30. In other words, it means that the GAAP effect tax rate, cash effect tax rate, proportion of women directors on the board, board size and firm size used in the study all explained 30% of the variation in ROA of the study firms in Nigeria. The Wald chi2 of 28.56, which is significant at one percent, indicates that corporate tax planning and ROA model is fit. The P-value of Wald chi2 which is statistically significant at a level of 0.0000 implies that there is 99.9 percent probability that the relationship among the variables were not due to mere chance.

Table 4 revealed that the coefficient value for gender diversity was -0.085 with a p-value of 0.514. This signifies that GAAP effective tax rate has no significant effect on financial performance of the firms. Hypothesis one states that GAAP effective tax rate does not have significant impact on financial performance. Thus, based on the results of the regression which is non-significant at either 1% or 5%, we therefore fail to reject the null hypothesis. This finding is in line with those of Omesi et al. (2021) But it is contrary to those of Fagbemi et al. (2019).

Cash effective tax rate recorded a coefficient value of 0.197 with a p-value of 0.003 which is significant at 1% level. This implies that cash effective tax rate has significant impact on financial performance. This means that as CETR increases, firm performance also increases. Hypothesis two infers that CETR has no significant impact on financial performance. However, based on the finding of the study, the null hypothesis is therefore rejected. This finding is in line with those of Timothy et al. (2020). However, it is in contrast to those of Umehi (2020).

Board size has a coefficient value of 0.239 which is significant at 1%. This implies that for every increase in the number of board members, there is an increase in the level of financial performance of the firms. The regression results showed that firm size has significant but negative impact on financial performance of the firms.

4.4 Regression Results of Pre-moderation and Interaction Models

The regression results of the robust Ordinary Least Square (OLS) estimation technique (pre-moderation and interaction models) is presented in Table 6.

Table 5: Summary of Ordinary Least Square Regression of Pre-moderation and Interaction Models

Variables	Pre- moderation model		Interaction model	
	Coefficients	Prob.	Coefficients	Prob.
Cons	7.995	0.000	4.441	0.043
GETR	-0.168	0.383	3.382	0.034
CETR	3.204	0.48	-2.537	0.11
GETR*BGD			8.464	0.044
CETR*BGD			22.912	0.011
BGD	0.916	0.000	0.883	0.000
BSZ	-10.361	0.000	-2.498	0.457
FSZ	0.177	0.618	11.396	0.010
R-Squared	0.3253		0.3671	
F-Statistics	14.85		12.60	
Prob. F	0.0000		0.0000	

Source: Results Output from STATA

Findings from the panel data regression analysis of models two and three in Table 6 indicated that, R^2 were 0.3253 and 0.3671. This therefore means that, the two models were capable of explaining about 33% and 37% of the systematic variation in the value of dependent variable. The finding from pre-moderation showed that the coefficient value of BGD is 0.916 which is significant at 1%. As a result, the relationship between corporate tax planning and financial performance can be moderated by BGD.

The result from the model revealed that moderated CETR has a coefficient value of 22.912 with probability value of 0.011 which is significant at 5%. However, the finding from the moderated GETR has a significant value of 8.464 with a probability value of 0.044. Therefore, based on the finding of the study, it means that board gender diversity improves the relationship between corporate tax planning and financial performance of the studied firms. The third hypothesis asserts that BGD does not moderate the relationship between corporate tax planning and financial performance. However, in view of the regression result which is significant at 1%, we therefore reject the null hypothesis.

5.0 CONCLUSION AND RECOMMENDATIONS

This study examines the moderating effect of board gender diversity on the relationship between corporate tax planning and financial performance of consumer goods firms in Nigeria during the period 2013 to 2022. Most of research findings on effect of corporate tax planning on financial performance have been conducted in developed and other emerging economies. Because of differences in economic situations, regulatory systems, and governance procedures affecting board heterogeneity in different countries, generalizing the findings of these research to most developing nations, particularly Nigeria, may be impossible.

Thus, the study concludes that:

1. GAAP effective tax rate has no significant impact on financial performance.
2. Cash effective tax rate has positive and significant impact on financial performance.
3. Board gender diversity improves the financial performance of the firms through tax planning activities.

This study offers some interesting insight into corporate tax planning and its effect on financial performance of the studied firms.

1. The firms should ensure that adequate loopholes are used to ensure effective tax planning which will translate to financial performance.
2. The firms should maintain their tax planning activities in the cash flow statement since it leads to improved financial performance.
3. The role of female board member should be given ultimate attention when constituting the board since it improved the relationship between corporate tax planning and the financial performance of consumer goods firms in Nigeria.

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