



INFLUENCE OF BOARD FINANCIAL EXPERTISE ON TAX COMPLIANCE OF NON- FINANCIAL LISTED FIRMS IN NIGERIA

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Abstract

Generating enough tax revenue is still a universal phenomenon due to unabated tax scandals in all jurisdictions. This study sought to provide empirical evidence on the influence of independent board financial expertise (IBFE) on tax compliance of non-financial listed firms in Nigeria using Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR) and Permanent Tax Difference (PERMDIFF) as tax proxies. This study employed explanatory sequential design of mixed method to collect and analyse quantitative and qualitative data and merged the data-sets for interpretation of the results. The study explored data from 68 firms out of 116 non-financial listed firms in Nigeria from 2004 to 2018 while qualitative data was obtained through semi structured interviews on 17 corporate governance agents. A Generalised Least Squares Regression and Discourse analysis were used to analyse the quantitative and qualitative data, respectively. The combined GLS results (Wald Chi square) show that IBFE has a positive statistical significant ($\beta=0.0000$; $P<0.05$) influence on tax compliance of non-financial listed firms in Nigeria. The qualitative result aligns with the quantitative result. The study concludes that independent financial expertise of the board is of paramount importance to achieving tax compliance in Nigeria. The study recommends that the Financial Reporting Council of Nigeria (FRCN) should promote and implement a policy for the engagement of at least 20% experienced, technically knowledgeable and high integrity independent financial experts on the corporate board for a better monitoring and control of management

Key words: Tax compliance, Independent board financial expertise, Tax Proxies

INTRODUCTION

Tax is a major source of revenue to the government to execute projects. However, the contribution of tax revenue is at an abysmally low level due to the failure of tax payers to pay the right taxes thereby creating a deficit in revenue generation (Anyaehe & Areji, 2015; Oyeleke, Erin & Emeni, 2016). The tax paid by a firm is a wealth transfer from a firm to the government and it is seen as a cost to the firm. Taxes take a greater proportion of firms' pre-tax earnings thus reducing distributable profits hence, the reason for the endless war against non-compliance (Daily Mail, 2010).

Government efforts at various jurisdictions to resolve tax scandals, through tax reforms have not yielded the desired result. This is why tax non-compliance is still a universal phenomenon (Alabede, Arifin & Idris, 2011). But, tax revenue loss from firms in developing countries is greater than the loss in developed countries, a phenomenon due mostly to weak corporate governance



(Obon, Yeye & Isa, 2013). The consistently low and shrinking contributions of income taxes to total revenue in most countries are due to tax scandals (Hundal, 2011). Earlier studies (Garbarino, 2011; Elghuweel, 2015) show that the agency problem associated with the separation of ownership and control between firms and shareholders has largely accentuated tax non-compliance. The reason is that decisions of tax strategy are taken by executive managers who do not bear a large share of the economic consequences of their actions.

The financial scandals at big global businesses of modern corporations - Enron, WorldCom in USA, Parmalat, Lehman Brothers, Cadbury and MTN Nigeria Limited for example, have made corporate governance to receive significant discourse in literature in the last two decades (Monem, 2011). Each round of corporate scandal over the years gives rise to a fresh round of debate and corporate governance enhancements. The board is the most important of the several attributes that create good corporate governance and the corporate governance reforms and enhancements focus on its effectiveness (Salleh & Othman, 2016). The board is the highest internal control mechanism which monitors the actions of management and implements policies, processes and systems that ensure credible financial information and minimises tax risk philosophy of the firm (Ledenyov & Ledenyov, 2015). The characteristics of the board are the most effective mechanisms in management monitoring (Ibrahim, Howard & Anglidis, 2003). However, scandals that caused the global financial crisis were blamed on the ineffectiveness of the corporate board to discharge its oversight functions (Elghuweel, 2015). The global financial crisis of the 1990s prompted the Nigerian Securities and Exchange Commission (SEC) to issue the first governance code in 2003 in order to foster ethical practices among listed firms in Nigeria. Despite the release of successive codes of governance, audit frequency, sanctions and tax reforms undertaken by successive governments to increase tax revenue, yet, tax revenue contribution to Gross Domestic Product (GDP) is less than 6% (OECD, 2019). This short coming casts doubt on the effectiveness of the existing structure of the board and governance code to achieve tax compliance in Nigeria. Nevertheless, the extant literature argue that higher presence of independent board financial expertise might reduce tax compliance problems and improve decision making and monitoring (Hardwick, Adams & Zou, 2011). However, the existing code of governance in Nigeria does not mandate the inclusion of an adequate percentage of board financial expertise and this might be part of the factors leading to non-compliance.

Despite the conviction that boards with insufficient independent board financial expertise might deter effective monitoring function of the corporate board (Ledenyov and Ledenyov, 2015), there is dearth of studies on independent board financial expertise on tax compliance in Nigeria. The few studies (e.g. Armstrong, Blouin & Larcker, 2015; Darrat, Gray, Park & Wu, 2016) on board financial expertise were done in other climes and utilised limited tax proxies.

Therefore, to resolve this germane tax issue, the objective of this study is to assess the influence of independent board financial expertise on tax compliance of listed firms in Nigeria based on specific proxies of tax compliance: Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR)



and Permanent Tax Difference (PERMDIFF). The relevant research question is; what is the degree of influence of financial expertise of the board on tax compliance of Nigeria's listed firms? In the same vein, the main hypothesis for this study is: Independent board financial expertise does not have significant influence on the tax compliance of non-financial listed firms in Nigeria. The main hypothesis gave rise to three sub-hypotheses: Independent board financial expertise does not have significant influence on (i) Effective Tax Rate (ii) Cash Effective Tax Rate (CETR) and (iii) Permanent Tax Difference (PERMDIFF) of non-financial listed firms in Nigeria.

LITERATURE REVIEW

The literature review covers conceptual issues, theoretical issues and empirical evidence from prior studies relating to this study.

Conceptual Issues

Tax Compliance and Non-Compliance

Tax compliance is the accurate reporting of income and claiming of expenses in line with tax laws (Sapiei1, Kasipillai & Eze, 2014). Tax compliance is the willingness of tax payers to act within the spirit as well as the letter of the law and administration without the application of enforcement activity. It is the true reporting of the tax base, correct computation of the tax liabilities, timely filing of tax returns, and timely payment of the amount due as tax (Alabede, *et al.*, 2011). Tax compliance can be committed (voluntary compliance), capitulative (enforced compliance), and creative (tax avoidance) (Quadri, 2010). Tax non-compliance is failure to file returns, underreporting of income, overstating tax claims, and failure to make payment at due date (Omweri, Wanjohi & Magutu, 2010). This could be tax management/planning/ tax avoidance, tax aggressiveness and tax evasion (Tang & Firth, 2011).

Tax compliance could accurately be measured through the information on the tax returns rendered to the Federal Inland Revenue Service, but are only available to few people. Therefore, without accessing the tax returns of a firm, the only alternative to estimate the tax liability is the audited accounts (Desai & Dharmapala, 2008). Different measures of tax compliance have been used in literature. Accounting Effective Tax Rate, which is total tax expenses divided by the accounting income before tax, was used in Chen, Chen, Cheng and Shelvin (2010) and Huseynov and Klamm (2012), but it does not capture tax deferral strategies. Current Effective Tax Rate (ETR) which is the current-year tax expense divided by profit before tax was employed in Hope, Ma and Thomas (2012) and Mohammed (2017). It reflects firms' deferral strategies. However, both Accounting and Current ETRs could only capture the nonconforming type of tax management and suffer the problem of year-to-year volatility (Salihu, Annular & Sheikh Obid, 2013).

Dyreng, Hanlon and Maydew (2008) introduced long run cash ETR to correct the inadequacies of accounting current ETR. It is estimated as the sum of cash paid for income taxes over ten years scaled by the sum of profit before tax (net of special items) over the same period. It eliminates the volatility in the year level measures (Hanlon & Heitzman, 2010). Cash taxes paid to the operating



cash flow of a firm is also believed to measure tax management. It is not affected by accrual accounting and hence captures the conforming tax plan. Book Tax Difference (BTD) measures the magnitude of the difference between the accounting income and taxable income due to timing difference of recognition. This is imputed by dividing the income tax expense by the company tax rate (Jalan, Kale & Meneghetti, 2013). Permanent BTD is total BTD less temporary BTD. Temporary BTD is deferred tax expense grossed-up by the company income tax rate. The permanent BTDs variables are regressed on the independent variables (Lee, Vetter & Williams, 2015).

Theoretical review

The stakeholder and resource dependence theories are relevant to this study. Stakeholder's theory originated from Abram. He posited that by expanding the spectrum of interested parties, the stakeholder theory seeks to provide a balance among the interests of its diverse stakeholders in order to ensure that each interest constituency receives some iota of satisfaction (Abram, 1951). The stakeholder theory assumes that:

- i. Corporations should be operated not only for the financial benefit of their owners, but also for the interests of the relevant stakeholders in the society (Chen & Roberts, 2010);
- ii. Executive directors are equally accountable to all stakeholders, not only the firm's owners and creditors, but also other relevant stakeholders, such as employees, government, local community, customers and suppliers;
- iii. Stakeholder's theory is strongly connected to notions of morality in business and corporate social responsibility (Westphal & Zajac, 2013).

Thus, the stakeholder theory appears to be better in explaining the role of independent financial expertise of the board, a characteristic of corporate governance than the agency theory by highlighting the various constituents of a firm including government. The theory confirms the implied relationship of managers to shareholders and other stakeholders. Hence, the principal-agent relationship is between managers and stakeholders (Kock, Santalo & Diesire, 2012).

The resource dependence (RD) theory was the brainchild of Jeffrey Pfeffer and Gerald R Salancik in 1978 (Pfeffer & Salancik, 1978). The theoretical assumptions behind RD are that:

- (i) a firm's external environment comprises other firms, each with their own interests and objectives;
- (ii) firms hold power over a focal firm and may constrain its behaviour, if they control resources that are vital to its on-going operation and cannot be acquired elsewhere.

The board is the linkage mechanism that provides critical resources (legitimacy, advice and counsel) to the firm (Bear, Rahman & Post, 2010). The resource dependence theory supports the appointment of independent board financial expertise. The ultimate objective of this theory is to make management take the right decision in the best interest of the stakeholders.

Therefore, the stakeholder's theory and resource dependence theory are a useful point of reference in discussing the research outcomes. The conceptual framework as shown in Figure 1 shows the hypothesised model of the relationship between the dependent and independent variables and inclusive of the moderating variables:

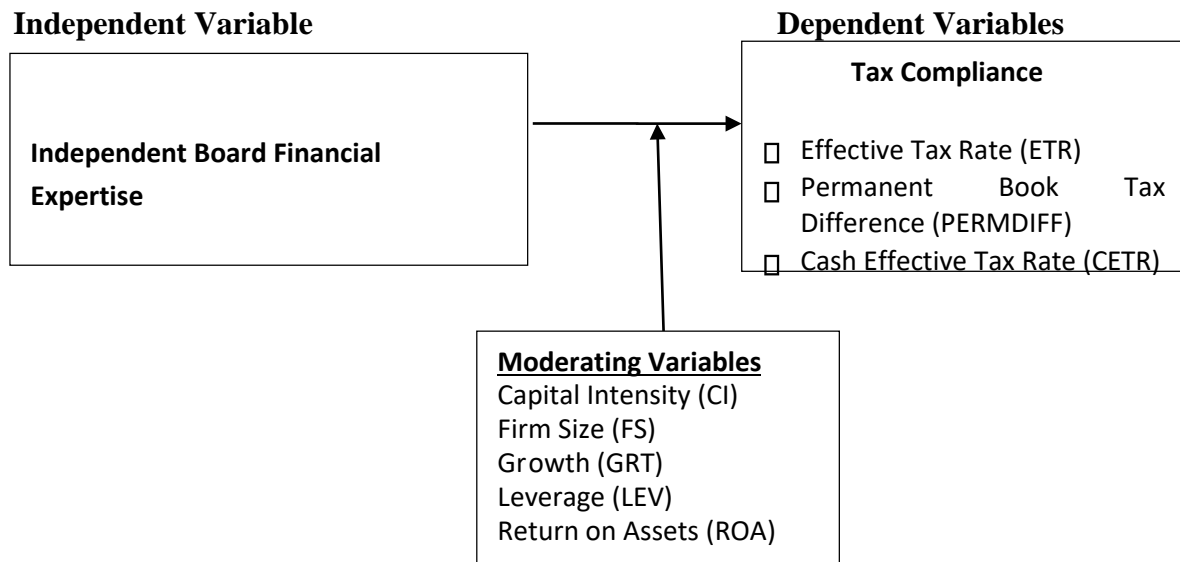


Fig 1: Study Conceptual Model

The conceptual model identifies the independent variables for the study as; independent board financial expertise, while the dependent variable for this study is tax compliance and this is proxied by ETR, CETR and PERMDIFF. The moderating variables in this study are: performance, firm size, leverage, growth and capital intensity. See Table 3.3 for the measure of variables.

The board characteristics and the control variables served as the explanatory variables regressed on the tax compliance as proxied by ETR, CETR and PERMDIFF) to show the impact of board characteristics on tax compliance of non-financial sector listed firms in Nigeria.

Empirical review

Independent board financial expertise and Tax Compliance

Recent studies on corporate governance suggest positive association between financial expertise of the board and corporate tax compliance. Gunner, Malimiedier and Tate (2007) analysed how directors with financial expertise affect corporate decisions. Using a novel panel data set of hand collected biographical information on all board members of these firms based on annual proxy



statements (1988–1997) and the IRRC database (1998–2001) of US public traded firms, the study notes that financial experts exert significant influence, though may not be in shareholders' interest. Similarly, Krishnan, and Visvanathan (2008) found that the proportion of non-accounting financial experts on the audit committee (i.e. experience CEO) is unrelated with accounting conservatism, while the proportion of accounting financial experts on the audit committee is significantly positively correlated with conservatism. Also, Lara, Osma and Penalva (2009) studied accounting conservatism and corporate governance using 79803 firm-year's observations for 1975 to 2006. The regression results show that prudent accounting practices are closely linked with strong corporate governance and that financial and tax reporting, monitoring, and the discharge of technical advice at the board level requires a level of financial expertise amongst directors beyond privately acquired firm-specific knowledge.

Faleye, Hotash and Hoitash (2011) also studied the characteristics and impact of directors dedicated to providing strategic counsel to top management. The sample consists of over 2000 firms covered in BoardEx for 2000-2009. The regression results show that the advisory directors possess professional expertise and experience most valuable to the prudent accounting practices that are closely linked with strong corporate governance. The study also noted that these directors are associated with better strategic outcomes, higher acquisition returns, higher firm value, better-quality corporate innovation and better control over financial and tax scandals at firms in which they serve.

Robinson, Zhang and Xue (2012) studied the relationship between firm's tax planning and the level of financial expertise on the audit committee in the United States and the study noted that firms with higher levels of accounting expertise on the audit committee are associated with a lower likelihood to engage in risky tax planning and vice versa. It was observed that the strength of corporate governance was associated with an overall reduction in risky tax planning. Armstrong, Blouin, Jagolinzer and Larcker (2015) also examined the link between corporate governance, managerial incentives, and corporate tax management, using all firms listed (12,275) for which data exist (7231) on compusat data base for 2007 to 2011, based on ETR. The quantile regression result found a positive relation between board independence and financial sophistication for low levels of tax management, but a negative relation for high levels of tax management.

Furthermore, Pel-Hui, Jared and Donald (2018) examined how firm business strategy interacts with the presence of financial expert directors on the audit committee to influence tax management in the United States, based on compusat data for the period 2004 to 2012, using ETR, CETR and BTD as proxies for tax management. The regression result indicated that firms adopting a more defender-type strategy have lower CETR when there is at least one independent financial expert on the audit committee, while firms adopting a prospector-type strategy have higher CETR and higher GAAP ETR and a lower BTD, when there is at least one financial expert director on the audit committee.

The previous research studies on independent board financial expertise concentrated more on financial reporting quality, conservatism, internal controls and with little attention paid to its



influence on tax compliance. These studies are limited to quantitative research design and in number of years. There is also a dearth of study on board financial expertise and tax compliance in Nigeria.

METHODOLOGY

Research Design, Population, Sample Size and Sampling Technique

Descriptive research design (survey and correlational) was employed in this study. The mixed research method using two levels (the independent level and the interactive level) of integration between quantitative and qualitative data was employed and the explanatory sequential design (two sequential stages) was used (Creswell & Clark 2011). The study first used generalised least square (GLS) to analyse the quantitative (secondary) data from audited accounts of Nigerian non-financial listed firms and thereafter, validated the outcome with the result of interviews conducted on 17 corporate governance agents (Board of Directors; Key Executive Management; Partners of the big four audit firms; Academic Scholars; Regulators; Tax Consultants; enlightened Shareholders) using a discourse analysis approach.

The population for this study comprised one hundred and sixteen (116) non-financial listed firms on the Nigeria Stock Exchange (NSE) as at August 3, 2019, covering ten sectors of the economy (Agriculture, Conglomerate, Construction and Real Estate, Consumer Goods, Health Care, Information and Communication Technology, Industrial, Natural Resources, Oil and Gas, and Services). The non-financial listed firms were selected as they account for about 95% of Nigerian GDP and revenue to the government (Chete, Adeoti, Adeyinka & Ogundele, 2016). Given the small size of the population of the listed firms, a census sampling approach was adopted for this study. However, firms with incomplete data were eliminated to arrive at a final sample of 68 non-financial listed firms for 2004 to 2018. This is necessary in order to achieve the requirements of balanced panel data analysis (Ntim, Opong & Danbolt, 2012).

Model specification and operationalization of variables

Regression model

This study adapted panel least econometric model from the study of Minnick and Noga (2010), controlling for year and industry to test the hypothesis on the influence of independent board financial expertise on tax compliance of listed firms in Nigeria. The model was adopted to minimise the potential endogeneity problems. The tax compliance proxies used included CETR and PERMDIFF, in addition, to ETR used in Minnick and Noga (2018). Therefore, the ETR model is modified in its extended form as:

$$ETR_{it} = \alpha_0 + \beta_1 BLF_{it} + \rho_i Z_{it} + \varepsilon_{it}$$

The CETR model for this study is also specified as:

$$CETR_{it} = \alpha_0 + \beta_1 BLF_{it} + \rho_i Z_{it} + \varepsilon_{it}$$

The Permanent Book Tax Difference (PERMDIFF) Model for this study is specified as follows:



$$PERMDIFF_{it} = \alpha_0 + \beta_1 BLF_{it} + \rho_i Z_{it} + \varepsilon_{it}$$

The variables are defined as follows: α_0 is the model intercept. $\beta_1 - \beta_5$ Are the coefficients of the parameters. Z is the proxy for the moderating variables and ε_{it} is the error term accounted for i represents firms; t represents the time period. A Firm is considered tax non-compliant, when its ETR, CETR, PERMDIFF is less than corporate income tax rate (i.e. 30%) in an accounting period. The a priori is such that: $\beta_1 BLF > 0$. Meaning, a positive relationship is expected between explanatory variables $\beta_1 BLF$ and the dependent variable. The variables for this study are defined in Table 1

Table1: Description of Variables

Variables	Abbreviation	Measurement	Source
Tax Compliance	TC	ETR, CETR, PERMDIFF	Minnick & Noga (2010), Kourdoumpalou (2016)
Effective Tax Rate	ETR	Tax Expense/Pre-tax income	Salihu <i>et al.</i> (2013); Lanis and Richardson(2012); Mohammed (2017); Onatuyel and Odu (2019)
Long Cash ETR	CETR	Cash tax paid/Pre-tax income	Dyrenge <i>et al.</i> (2008); Minnick and Noga (2010); Hanlon and Heitsman(2010)
Permanent Book Tax Difference	PERMDIFF	Permanent difference divided by Total Asset	Hanlon and Heitsman (2010); Jalan <i>et al.</i> (2013). Lee <i>et al.</i> (2015)
Independent Variables			
Independent board financial expertise	IBFE	% of independent board financial expert relative total number of board members.	Lara <i>et al.</i> (2009); Faleye <i>et al.</i> (2013); Armstrong <i>et al.</i> (2015); PelHui <i>et al.</i> (2018).
Moderating Variables			
Performance	ROA	Operating income / Total assets	Dyrenge <i>et al.</i> (2008); Mironov (2013); Moradi and Agthouei (2015).
Firm Size	FS	Natural log of the book value of total assets	Chen <i>et al.</i> (2010); Minnick and Noga (2010); Richardson <i>et al.</i> (2013); Khaoula and Moez



			(2019)
Leverage	LR	Total debt less cash in hand and bank divided by book value of equity.	Bagherpour <i>et al.</i> ((2012); Didar <i>et al.</i> (2014).
Growth	GRT	Book value of equity divided by Market value of equity	Dyrenge <i>et al.</i> (2008); Minnick and Noga(2010); Khaoula and Moez (2019).
Capital Intensity	CI	Sum of PPE divided by total assets	Chen <i>et al.</i> (2010); Salihu <i>et al.</i> (2013).

Source: Author's own

RESULTS AND DISCUSSIONS

Descriptive statistics

Table 2, shows the mean of ETR, CETR and PERMDIFF as 11%, 23% and 24%, respectively. This suggests that listed firms on the average paid below statutory rate of 30% company income tax in Nigeria. This finding agrees with the findings of Kadiri (2018); Onatuyeh and Odu (2019).

Table 2 Descriptive Statistics

Variable	N	Mean	Min	Max	CV	Skewness	Kurtosis	Pr(Skewness)	Pr(Kurtosis)	Joint Adj Chi2(2)	Joint Pr>Chi2
ETR	1023	0.1132	-46.254	70.956	32.354	10.103	272.136	0.000	0.000		
CETR	1023	0.2293	-46.254	399.747	23.856	30.876	978.415	0.000	0.000		
PERMDIFF	1023	0.2355	-2.799	5.789	9.915	9.572	163.703	0.000	0.000		
IBFE	1023	0.099	0	0.7	1.260	1.619	6.225	0.000	0.000		0.000
ROA	1020	0.055	-1.307	3.103	4.090	2.704	58.599	0.000	0.000		0.000
FS	1020	15.697	9.831	21.298	0.127	0.005	3.666	0.943	0.012	6.36	0.042
LR	1020	-1.260	-2250.22	674.471	-78.176	-18.379	411.475	0.000	0.000		
GRT	1020	22.865	-24.071	3665.01	7.129	14.255	221.763	0.000	0.000		
OC	1022	55.659	0	98.63	0.426	-0.777	1.191	0.000	0.000	68.06	0.000



CI	1020	1.0275	0	575.686	17.577	31.869	1017.114	0.000	0.000		
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Source: Author's compilation, 2019

The result indicates that ETR, PERMDIFF, CETR, IBFE, GRT, FS, ROA and CI are positively skewed, because they have a long-tail to the right. However, LR was negatively skewed, as it has a long-tail to the left. The distribution slope of ETR, PERMDIFF, CETR, CI, IBFE, GRT, LR and ROA are leptokurtic in nature as they have values above 3, hence, their peakedness were far from the centre. OC has a value approximately 3, hence, the distribution slope was mesokurtic in nature and hence, within the centre. FS distribution value was below 3, implying that the distribution is platykurtic in nature. The Coefficient of Variation (CV) as shown in Table 3 measures the dispersion of data points around the mean and shows the order of riskiness of PERMDIFF, CETR, and ETR as 9.915705, 23.85655, and 32.35486, respectively. The CV shows that FS and CI were the least and most variables to shocks or to changes within the period studied, respectively.

Correlation Test

Table 3 shows the correlation between the independent and the moderating variables. According to Kennedy (2008), the magnitude of the correlation coefficient should be less than 0.8 to eschew multicollinearity's problem. From the table 3, all the correlation coefficients between the explanatory variables were at maximum of 0.2. Generally, the result shows that the variables included in the model were free of multicollinearity problem as none of correlation coefficient of the explanatory variables was greater than 0.8.

Table 3: Correlation Test Result

	ETR	CERT	PERMDIFF	IBF E	ROA	FS	LR	GRT	OC	CI
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ETR	1									
CETR	0.0629*	1								
Prob.	0.0442									
PERMDIFF	-0.0074	-0.0052	1							
Prob.	0.8129	0.8669								
IBF	0.0471	0.0052	-0.0457	1						
Prob.	0.1323	0.8669	0.1445							
ROA	0.0105	-0.0032	-0.6308	0.0054	1					
Prob.	0.737	0.9196	0.0000	0.8625						



FS	0.0182	0.0769*	-.1746*	0.2335*	0.1897*1				
<i>Prob.</i>	<i>0.5615</i>	<i>0.0141</i>	<i>0.0000</i>	<i>0.0000</i>	<i>0.0000</i>				
LR	-0.0004	0.0173	0.0016	0.0062	0.0084	-	1		
							0.0854*		
<i>Prob.</i>	<i>0.9886</i>	<i>0.5815</i>	<i>0.9601</i>	<i>0.842</i>	<i>0.7898</i>	<i>0.0064</i>			
GRT	-0.0021	0.0068	-0.0109	-0.0113	-0.0212	-0.0337	0.0028	1	
<i>Prob.</i>	<i>0.9462</i>	<i>0.8273</i>	<i>0.7288</i>	<i>0.7176</i>	<i>0.4997</i>	<i>0.2822</i>	<i>0.9301</i>		
OC	0.0225	-0.019	-	0.0138	0.0819*	0.0715*	-0.0055	0.1321*1	
			0.1466*						
<i>Prob.</i>	<i>0.4722</i>	<i>0.5436</i>	<i>0.0000</i>	<i>0.6597</i>	<i>0.0089</i>	<i>0.0225</i>	<i>0.8601</i>	<i>0.0000</i>	
CI	-0.0004	-0.0015	-0.0048	-0.0255	-0.0047	-0.0243	0.2151*	-0.0051	0.0129
<i>Prob.</i>	<i>0.9900</i>	<i>0.9617</i>	<i>0.8773</i>	<i>0.4161</i>	<i>0.8816</i>	<i>0.4385</i>	<i>0.0000</i>	<i>0.8701</i>	<i>0.68171</i>

4.3. Other Model Diagnostic Test Results and Discussion

Secondary panel data was equally collected for this study. By the very nature of the data collected, it was both cross-sectional and time series data. For that reason, the data must be subjected to series of diagnostic tests to verify that none of the assumptions of classical linear regression model (CLRM) was violated. Diagnostic tests were undertaken on the panel data collected for the study to know the best estimation method to adopt for the study and the results are shown in Table 5.

To confirm the multicollinearity problem, further collinearity review was carried out by determining

Variance Inflation Factor (V.I.F) as shown in Table 4. There is multicollinearity whenever the VIF greater or equal to 10. However, if the tolerance level is below 0.1, then there is a problem of multicollinearity among the variables.

Table 4: Multicollinearity Test Results Output

Variable	VIF	Tolerance
Independent board financial expertise (IBFE)	1.11	0.898024
Capital Intensity (CI)	1.05	0.952419
Firm Size (FS)	1.14	0.875587
Growth Intensity Capital (GRT)	1.03	0.972886
Leverage (LR)	1.06	0.944581
Return on Asset (Performance) (ROA)	1.69	0.592065



Mean VIF

1.18

The results presented in Table 4 showed that all the VIF fell within the threshold for the study and hence, the conclusion that no problem of multicollinearity among the data set used in this study.

Table 5: Panel Data Diagnostic Test

Test	Test statistics	P-value	Decision	Remark
Normality	Jacque-Bera value of p=0.1691 3.5547 and Q-Q plot (p>0.05)		Data are not normally distributed	OLS assumption violated
Panel Unit Root (Stationarity)	RootAugmented Dickey – Fuller	P<0.05	Variables stationary at level	not OLS assumption violated
Co-integration and Granger Causality Tests	Augmented Dickey Fuller (ADF) co-integration test	P<0.05	Cointegration equations exist	OLS assumption violated
Autocorrelation	Durbin-Watson d statistic	d = 2.019	No problem of autocorrelation	OLS assumption not violated
Multicollinearity	Variance Inflation Factor (VIF)	All VIF t<No	No multicollinearity	OLS assumption not violated
Heteroscedasticity	Breusch-Pagan/Cook-Weisberg test for heteroskedasticity [chi2(1) = 493.70, Prob > chi2 = 0.000]	P<0.05	The data is heteroscedastic	OLS assumption violated

Due to the violation of some of the assumptions of ordinary least square (OLS), cross sectional dependence, presence of heteroscedasticity and co-integration, the OLS model was considered inefficient to conclude on influence of independent board financial expertise on tax compliance of non-financial listed firms in Nigeria. Therefore, a GLS model was considered and adopted for the quantitative aspect of this study to correct the violations. The regression results are shown as follows:

Generalised Least Squares (GLS) Univariate Model of Independent board financial expertise (IBFE) on Tax Compliance of Non-Financial Listed Firms in Nigeria

The GLS was fitted to empirically determine the influence of IBF on tax compliance of listed firms in Nigeria. The Wald Chi-square statistic as shown in Table 6 shows a p-value of 0.0000



for IBF which was lower than the alpha value =0.05. This shows that the GLS model fitted was generally significant and that the estimated coefficients of the explanatory variable were jointly not equal to zero.

This indicates that IBF has significant influence on the tax compliance of the listed firms in Nigeria.

GLS Model Summary of Independent board financial expertise (IBFE) Coefficients: generalised least squares Panels: homoscedastic

Model Statistics	Panel observation		
Estimated covariance	1	Number of obs	1023
Estimated autocorrelations	0	Number of groups	72
Estimated coefficients	2	Obs. Per group: min	2
Wald chi2(1)	265.43		
Prob > chi2	0.0000		

The model coefficient estimates as presented in Table 7, shows that the coefficient estimate of IBFE was found to be 0.5909111 with z statistic 3.61, while the p-value of the coefficient estimate was less than 0.05. This means that independent board financial expertise has significant and positive influence on the tax compliance of the listed firms in Nigeria. The equation generated from the model fitted is:

$$TC_{it} = .1671747 + .5909111IBF_{Sit}$$

Table 7: Coefficients Table-GLS Univariate Model for Independent Board Financial Expertise

TC	Coefficient	Std. Err.	Z	P> z
IBF	.5909111	0.163687	3.61	0.000
Constant	.1671747	.1777793	0.94	0.347

Note: IBF_s = Board Financial Expertise, TC = Tax Compliance



Hypothesis Testing

H0₁: There is no significant influence of Independent board financial expertise on tax compliance of non-financial listed firms in Nigeria.

To answer the objective of the study, the hypothesis was tested using GLS model. The Wald chi square result from the GLS model as shown in Table 6 revealed that the p value for the coefficient of independent board financial expertise (IBFE) on the tax compliance (TC) was 0.000, a value that was lower than alpha value =0.05 level of significance.. This indicates that the GLS model fitted was generally significant and that the estimated coefficients of the explanatory variables are jointly not equal to zero. This means that IBF has significant influence on the tax compliance of the non-financial listed firms in Nigeria. This conclusion agrees with the findings of Falaye *et al.* (2011), Robin *et al.* (2012) and Pel-Hui *et al.* (2018), who noted a positive significant influence of independent financial expertise of the board on tax compliance, but contradicts Armstrong *et al.* (2015), who found a negative relations between independent financial expertise of the board and tax compliance for a high level of tax management. Generally, previous researches depict a positive relationship.

This study further investigated the hypothesis in order to know the influence of each of the independent variables on the dependent variables. The first sub-hypothesis was tested and the result from the analysis of the data collected is presented below:

Sub-Hypothesis One

H0_i: There is no significant influence of independent board financial expertise on current effective tax rate (ETR) of non-financial listed firms in Nigeria.

The ETR Model used ETR as the dependent variable. This was fitted, and the results are shown in Table 8. The Wald Chi-square statistic was 612.43, p-value was found to be 0.0000 for IBFE, which was less than the alpha value =+0.05. Table 8 shows that the relationship between the IBFE and tax compliance of non-financial listed firms in Nigeria was significant. The GLS model fitted was generally significant and that the estimated coefficients of the explanatory variables are jointly not equal to zero. Therefore, the independent board financial expertise has a positive significant influence on the tax compliance of non-financial listed firms in Nigeria.

This conclusion aligns with the studies of Krishnan and Visvanathan (2008) and PelHui *et al.*(2018) which showed a positive influence of independent board financial expertise on effective tax rate of listed firms, but contradicts the study of Armstrong *et al.*(2012; 2015), with a negative relationship for a low level of tax management. Therefore, increase in independent board financial expertise may promote increase in tax compliance in Nigeria. The equation generated from the model:

$$ETR_{it} = \beta_0 + IBFS_{it} + CIS_{it} + FSS_{it} + GRTS_{it} + LRS_{it} + ROAS_{it}$$



$$ETR_{it} = 0.4318065 + 1.064997IBF_{Sit} + 0.0001737CI_{Sit} - 0.0037122FS_{Sit} + 0.0000694GRT_{Sit} - 0.0000555LR_{Sit} + 0.1201169ROA_{Sit}$$

Table 8: Coefficients Table- Generalised Least Squares Multivariate Model for Independent board financial expertise on Tax Compliance (ETR)

Cross-sectional time-series FGLS regression

Coefficients: generalised least squares

ETR	Coefficient	Std. Error	Z	P>z
IBFE	1.064997	0.4610377	2.31	0.023
CI	0.0001737	0.00579	0.03	0.979
FS	-0.0037122	0.06187	-0.06	0.951
GRT	0.0000694	0.00094	0.1	0.922
LR	-0.0000555	0.00111	-0.05	0.963
ROA	0.1201169	0.5222474	0.23	0.815
CONSTANT	0.4318065	0.95957	0.45	0.651
WALD CHI2(10)	612.43			
Prob > chi2	0.000			

Table 8 shows that, the influence of independent board financial expertise (IBFE) on ETR .is positively significant at coefficient of 1.064997 and p-value of 0.023. It means increase in IBF by one unit will increase ETR by 1.06 units. The relationship between moderating variables, CI, FS, GRT, LR, ROA and ETR was insignificant as $p > 0$. This agrees with Minnick and Noga (2010) and Mohammed (2017), but contradicts Khaoula and Moez (2019).

Sub-Hypothesis Two

H0_{iii}: There is no significant influence of Independent board financial expertise on Cash Effective Tax (CETR) of non-financial listed firms in Nigeria.

The CETR was fitted and the results presented in Table 9. The Wald Chi-square statistic was 113.09, and p-value was 0.0087 for independent board financial expertise (IBFE) which was less



than the alpha value =0.05. Table 9 shows that the relationship between the IBFE and CETR of non-financial listed firms was significant. This means that the GLS model fitted was generally significant and that the estimated coefficients of the explanatory variables are jointly not equal to zero. This agrees with the finding of Armstrong *et al.*(2015), who noted a significant negative influence of IBFE on tax compliance, but contradicts the findings of Robin *et al.*(2012); Pel-Hui *et al.*(2018), who reported a significant positive influence. This implies that increase in the independent board financial expertise may influence tax compliance of non-financial listed firms in Nigeria. The equation generated from the model is as stated

$CETR_{it} = \beta_0 + IBF_{Sit} + CI_{Sit} + FS_{Sit} + GRT_{Sit} + LR_{Sit} + ROA_{Sit}$ is fitted and given next.

$$CETR_{it} = -7.310181 + 1.707501IBF_{Sit} - 0.0039865CI_{Sit} + .5251792FS_{Sit} + .5251792FS_{Sit} + 0.000567GRT_{Sit} + 0.0032555LR_{Sit} - 1.245049 ROA_{Sit}$$

Table 9: Coefficients Table- Generalised Least Squares Univariate Model for Independent board financial expertise on Tax Compliance (CETR)

Coefficients: generalised least squares

CETR	Coefficient	Std. Error	Z	P>z
IBFE	1.707501	0.472992	3.61	0.00001
CI	-0.0039865	0.0221472	-0.18	0.85901
FS	0.5251792	0.20184044	2.52	0.01202
GRT	0.000567	0.0024652	0.23	0.81701
LR	0.0032555	0.0041209	0.79	0.42802
ROA	-1.245049	0.3355927	-3.71	0.00000
CONSTANT	-7.310181	3.2781081	-2.23	0.02600
WALD CHI2(10)	113.09			
Prob > chi2	0.0087			

Note: $IBFE_s$ = Independent Board Financial Expertise, $CETR$ = Cash Effective Tax rate

Table 9 shows that, the influence of IBFE on CETR was positively significant at coefficient of 1.707501 and p-value of 0.00001. Meaning, increase in IBF by one unit will increase CETR by 1.7unts. This agrees with the study of and Faleye *et al.* (2011) and Robinson *et al.* (2012), but contradicts the empirical findings of Pel-Hui *et al.* (2018).

The relationship between moderating variables, CI, GRT, LR and CETR was insignificant as $p > 0$. However, FS and ROA have significant influence on CETR, as $p < 0$. One unit increase in FS will increase CETR by 0.5 unit, whereas, one unit increase in ROA will decrease CETR by 1.24



units. This agrees with the findings of Minnick and Noga (2010); and Mohammed (2017), but contrary to the finding of Khaoula and Moez (2019).

Sub-Hypothesis Three

H_{0iii}: There is no significant influence of Independent board financial expertise on Permanent Book Tax Difference (PERMDIFF) of non-financial listed firms in Nigeria.

The Permanent tax difference (PERMDIFF) was used as the dependent variable in this model. This was fitted, and the results are as presented in Table 10. The Wald Chi-square statistic was 718.46, pvalue was found to be 0.0000 for IBFE which was less than the alpha value =0.05. Considering Table 10, it was observed that the relationship between the IBFE and tax compliance (using PERMDIFF as dependent variable) of Nigerian listed firms was statistically significant. This implies that the GLS model fitted was generally significant and that the estimated coefficients of the explanatory variables are jointly not equal to zero. This means that IBFE has significant influence on the tax compliance of the listed firms in Nigeria. The equation generated from the model is as stated:

$PERMDIFF_{it} \beta_0 + IBFE_{Sit} + CI_{Sit} + FS_{Sit} + GRT_{Sit} + LR_{Sit} + ROA_{Sit}$ is fitted and given next.

$$PERMDIFF_{it} = 0.2926857_t - 0.2068409 IBF_{Sit} - 0.0001752CI_{Sit} - 0.0076492FS_{Sit} - 0.0000203GRT_{Sit} + 0.0000168LR_{Sit} - 0.9436972ROA_{Sit}$$

Table 10: Coefficients Table- Generalised Least Squares Univariate Model for Independent board financial expertise on PERMDIFF

Cross-sectional time-series FGLS regression

Coefficients: generalised least squares

PERMDIFF	Coefficient	Std. Error	Z	P>z
IBFE	-0.2068409	0.0984399	2.1	0.036
CI	-0.0001752	0.0004821	-0.36	0.716
FS	-0.0076492	0.0044935	-1.70	0.089
GRT	-0.0000203	0.0000527	-0.38	0.701
LR	0.0000168	0.0000527	0.19	0.850
ROA	-1.9436972	0.0379679	-24.86	0.000
CONSTANT	0.2926857	0.0706177	4.14	0.000
WALD CHI2(10)	718.46			
Prob > chi2	0.000			



Note: IBF_s = Board Financial Expertise, $PERMDIFF$ = Permanent Book Tax Difference

Table 10 shows that influence of independent board financial expertise on $PERMDIFF$ was significant at coefficient of -0.2068409 and p-value of 0.036. Meaning increase in IBFE by one unit decreases $PERMDIFF$ by 0.20 units. This conclusion agrees with the finding of Armstrong *et al.*(2015), who found a significant but negative influence of IBFE on tax compliance, but contradicts the findings of Robin *et al.*(2012); PelHui *et al.*(2018), with a significant positive influence.

The relationship between moderating variables, CI, FS, GRT, LR and $PERMDIFF$ was insignificant as $p > 0$. However, ROA has a significant but negative impact on $PERMDIFF$, as $p < 0$. One unit increase in FS will decrease $PERMDIFF$ by 0.94 unit.

Qualitative Analysis

Independent board financial expertise and Tax Compliance

Seventeen governance agents were interviewed and discourse analysis was employed to analyse the ensuing data. The participants unanimously agreed that the governance function of independent board financial expertise is very important to achieve tax compliance in Nigerian listed firms. The respondents equally unanimously observed inadequate representation of independent financial experts on boards of non-financial listed firms in Nigeria. Regarding the ideal percentage of independent financial experts that should be on a corporate board, figure ranged from at least 10% to 40% featured. Most (70%) of the participants proposed between 20 and 33% while a few respondents (30%) suggested at least 40% of independent financial experts should be appointed on board to ensure tax compliance. All participants agreed that the inclusion of independent board financial experts may promote tax compliance. Some of the words used to describe the possible direction of tax compliance decision include "improved tax compliance", "positive tax compliance", and "positive attitude to tax compliance". From the submissions of the participants, it became clear that independent financial expert directors are able to communicate more effectively with capital markets than their nonfinancial counterparts. In the words of one of the participants:

...financial reporting, monitoring and the discharge of technical advice at the board-level require a level of financial expertise amongst directors beyond privately acquired firm-specific knowledge. This is particularly important given that a key function of corporate governance is to ensure that firms avoid bankruptcy, ensure compliance to tax regulation, and remain afloat. For most of the listed firms, having a financial expertise on board not only helps promote stewardship but also supplies decision-making information to internal and external users....

Accordingly, independent financial expertise on the board is expected to be directly associated with 'high-quality' financial reporting and boost investor confidence in the firm as a 'going



concern'. This implies that the availability of independent board financial expertise is crucial to the achievement of tax compliance in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study considers the impact of independent board financial expertise on tax compliance of Nigerian listed firms. Based on census approach, a sample of 68 non-financial sector listed firms was selected having eliminated firms with incomplete data for the period between 2004 and 2018. The study employed a generalised least square regression for the quantitative analysis and discourse analysis was used for the qualitative analysis.

The study concludes that there is a significant positive ($\beta=0.0000$; $P<0.05$) influence of independent board financial expertise on tax compliance of non-financial listed firms in Nigeria but, noted inadequate representation of independent board financial expertise on the board of non-financial listed firms. The respondents opined that engagement of between 10% and 33% of IBFE on the corporate board is of paramount importance to promote tax compliance in Nigeria.

The study recommends that the Financial Reporting Council of Nigeria (FRCN) should promote and implement a policy for engagement of at least 20% experienced, technically knowledgeable and high integrity minded independent financial experts on the corporate board for a better monitoring and control of management, as majority of the financial experts do aim to practice professionalism and protect their licenses from being withdrawn. Overall, the study provides unique insights into the influence of independent board financial expertise on tax compliance of listed firms in Nigeria using multiple tax proxies and mixed research method.

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