

**SUSTAINABILITY DISCLOSURES AND FINANCIAL PERFORMANCE OF BANKS  
IN NIGERIA.**

**BY**

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# CHAPTER ONE

## 1.1 BACKGROUND OF STUDY.

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities (Adam Hayes 2023).

The purpose of a business is to organize some sort of economic production of goods or services. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations.

Sustainability disclosure dates back to the historical beginnings of environmental reporting (Glendanique, 2017). The first sets of environmental reports were published in the late 1980s by companies in the chemical industry which had serious image problems, for instance, a huge PVC producer was denied permits to develop a site near Houston after residents organized to block the plant. Officials who supported the project privately conceded that the company and industry's image as dangerous and greedy made the difference in blocking what technically was an unobjectionable proposal.

Now, non-financial disclosure such as sustainability disclosure is a fairly recent trend which has expanded over the last twenty years. Many companies now produce an annual sustainability report and there are a wide array of ratings and standard around. There are varieties of reasons that companies choose to produce the reports, but at their core, they are tend to be vessels of transparency and accountability. Often they also tend to improve internal processes, engage stakeholders and persuade investors (Rossie, 2014). Sustainability report is the most important communication channel that an organization has its external and internal stakeholders (Bitlis,2016).

Financial performance is viewed as the assessment of the degree to which a corporation can utilize its assets to improve the earnings of the business. Assets in this context refer to items owned by the firm, and might not necessarily be tangible. Otekunrin et al. (2019) averred that the Nigerian banking system is highly evident with poor liquidity management. This was the core reason why the Central Bank undertook a recapitalization process which raised the minimum capital base of banks from N2 billion to N25 billion.

This reform compelled banks to partake in any merger/amalgamation in order to obtain the needed capital and acquire sound liquidity in 2005. Over time, not all banks were able to maintain the required capital standing and some had to merge with others or were liquidated. In 2018, for instance, Skye Bank transferred its assets and liabilities to Polaris Bank because of its inability to maintain sound financial performance evident by its failure to meet liquidity requirements.

Antoun et al. (2018) noted that there is an abundance of research concerning the performance of the banking sector. Most of these studies used banks' profitability as its outcome variable. Also, the predictors of the financial performance of banks were divided into three divisions: bank-specific factors, industry-specific factors, and macroeconomic factors. The bank-specific variables included business mix and diversification, deposits, size, and operating efficiency. According to Nyantakyi & Sy (2015), right from the mid-1980s, several countries in Africa have carried out financial sector reforms that were targeted at reorganizing and privatizing state-controlled banks as recommended by the IMF and World Bank structural adjustment policies (SAP).

The SAP( structural adjustment program) was carried out along with supporting policies that reduced the entry and exit borders, interest and capital controls, and overturned some unprofitable standards in the banking sector. Notwithstanding the continued debate among experts on the overall economic benefits of SAP, the accord is that in the financial sector, these policies have directed the advent of more competent private deposit money banks which are directly placing financial resources into more creative sectors, aiding in risk-sharing and strengthening private sector expansion(Bello walden 2016).

This research intends to study the impact of sustainability reporting on financial performance of listed banks in Nigeria. This can be done using certain indicators like social disclosure to measure sustainability whereas return on assets, earnings per share and return on equity could be used to measure financial performance. Again the research will establish a theoretical framework that can create link between sustainability and financial performance of banks.

## **1.2 STATEMENT OF THE RESEARCH PROBLEM**

Organization who do not get involved in sustainability disclosure do not get the benefits it brings such as getting investors both far and wide to make important investment decisions in the organization. The scenario also does not provide the requisite atmosphere for stakeholders and investors to have knowledge of what the organization is up to. Standards have been put in place to ensure that banks in Nigeria get involved in sustainability disclosure. One of the standard and most widely accepted standard for sustainability disclosure down is the Global Reporting Initiative(GRI). The Global Reporting Initiative (known as GRI) is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

Since its first draft guidelines were published in March 1999,[Molken folkert 2015] GRI's voluntary sustainability reporting framework has been adopted by multinational organizations, governments, small and medium-sized enterprises (SMEs), NGOs, and industry groups. Over 10,000 companies from more than 100 countries (including Nigeria) use GRI.

The problem areas that spurred the interest in researching on this topic, is specifically the sustainability reporting and financial performance studies are either inconclusive or contradictory, sometimes reporting negative or positive result of relationship between sustainability disclosure and financial performance. Therefore, this study was carried out to evaluate the effect of sustainability disclosure and financial performance of banks in Nigeria. the research work attempts to contribute to already existing literature as regards sustainability disclosure and financial performance of banks in Nigeria by addressing and answering the following challenges raised.

1. Is there a significant relationship between the governance disclosures and the bank's financial performance?
2. Is there a significant relationship between the social disclosures and the bank's financial performance?
3. Is there a significant relationship between the environmental disclosures and the bank's financial performance?

### **1.3 OBJECTIVES OF THE STUDY**

The main objective of this study is to investigate the relationship between sustainability disclosures and bank's financial performance in Nigeria. The specific objectives of the research work are to:

1. Determine the relationship between governance and bank's financial performance in Nigeria.
2. Evaluate the relationship between social disclosure and Bank's financial performance in Nigeria.
3. Ascertain the relationship between environmental disclosures and bank's financial performance in Nigeria.

### **1.4 RESEARCH HYPOTHESIS**

The hypothesis listed below will be tested empirically during the course of the research and the result will guide the conclusion to be derived and the recommendation to be made.

H1 There is no significant relationship between governance disclosures and bank's financial performance in Nigeria.

H2 There is no significant relationship between social disclosures and bank's financial performance in Nigeria.

H3 There is no significant relationship between environmental disclosures and bank's financial performance in Nigeria.

## **1.5 SCOPE OF THE STUDY**

This study is an attempt to empirically examine sustainability disclosure and bank's financial performance in Nigeria. This study intends to carry out investigation and financial performance from Nigerian banks. It is aimed at gaining in-depth knowledge into the concert of sustainability disclosure as it impacts on bank's financial performance in Nigeria. To achieve this, we rely on the financial statement published by Nigeria banks from 2012-2021.

## **1.6 SIGNIFICANCE OF STUDY**

Stakeholders increased interest in the need for transparency in disclosure receive a general deal of attention. This benefit to be derived from this research work includes, firstly, the ignition of more awareness of sustainability disclosure of banks in Nigeria in addition to existing literature on the research work. This helps to make the importance and benefit of sustainability disclosure known so that different sector can adopt and practice it. secondly, valuable reference to further studies in the area of this research, allows for the provision of better understanding on the importance of affective sustainability. The study will also give assistance to existing stakeholders and potential investors to make judgement as regards investments.

## **CHAPTER TWO**

## **2.1 INTRODUCTION**

The study examines sustainability disclosure and bank's performance in Nigeria. This chapter discloses relevant literature on the variables (independent and dependent variable), conceptual review and theoretical review.

The highlighted variables are as follows

- I. Dependent variable: financial performance
- II. Independent variable: sustainability disclosure.

It also presents related empirical review of sustainability disclosure and financial performance of banks in Nigeria.

## **2.2 FINANCIAL PERFORMANCE**

Financial statements are written records that convey the business activities and the financial performance of a company(Chris murphy 2023).

Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Non profit entities use a similar but different set of financial statements..

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue. It is a general measure of a firm's overall financial health over a given period (Will, 2020). There are several means of measuring and evaluating firm's performance. These can be done through financial measure. For the purpose of this study,

return on asset, return on equity and Tobin's Q as a measure of financial performance would be adopted.

### **2.2.1 RETURN ON ASSET**

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. It is an indicator of how profitable a company is relative to its total assets. It gives a manager, investor or analyst an idea as to how efficient a company's management is at using its assets to generate earning. It is best used when comparing similar companies or company to its previous performance. This means of measuring profitability of a firm measures how effective a company can earn a return on its investment in asset. It tells you what earnings were generated from invested capital. It gives investors an idea of how effective the company is in converting the money, it invests into net income. The higher the ROA number, the better because the company is earning more money on less investment. Return on asset reveals the capacity of the asset available at the firm's disposal.

### **2.2.2 RETURN ON EQUITY**

Return on equity measures the rate as return that the owner of common stock or a company receive on their shareholdings; it signifies how good the company is on generating return on the investment it received from its shareholders. It is a measure of financial performance calculated by dividing net income by shareholder's equity because shareholder's equity is equal to a company's assets. Investors use return on equity as a measure of how a company is using its money, the higher returns on equity indicate that the company is spending wisely and likely profitable.

### **2.2.3 TOBIN'S Q**

The Q ratio, also known as Tobin's Q, equals the market value of a company divided by its assets' replacement cost. Thus, equilibrium is when market value equals replacement cost. At its most basic level, the Q Ratio expresses the relationship between market valuation and intrinsic value. In other words, it is a means of estimating whether a given business or market is overvalued or undervalued (Hans Daniel 2021).

The Tobin's Q ratio is a quotient popularized by James Tobin of Yale University, Nobel laureate in economics, who hypothesized that the combined market value of all the companies on the stock market should be about equal to their replacement costs.

While Tobin is often attributed as its creator, this ratio was first proposed in an academic publication by economist Nicholas Kaldor in 1966. In earlier texts, the ratio is sometimes referred to as "Kaldor's v (Amy drury 2021),

A low Q ratio—between 0 and 1—means that the cost to replace a firm's assets is greater than the value of its stock. This implies that the stock is undervalued. Conversely, a high Q (greater than 1) implies that a firm's stock is more expensive than the replacement cost of its assets, which implies that the stock is overvalued.

### **2.3.4 SUSTAINABILITY DISCLOSURES**

Sustainability reporting refers to the disclosure, whether voluntary, solicited, or required, of non-financial performance information to outsiders of the organization.[ Stolowy, Hervé 2015] Generally speaking, sustainability reporting deals with information concerning environmental, social, economic and governance issues in the broadest sense. These are the criteria gathered under the acronym ESG (Environmental, social and corporate governance).

The introduction of these non-financial information in published reports is seen as a step forward in corporate communication and considered as an effective way to increase corporate engagement and transparency.[ Rypakova, M. 2015]

Sustainability reports help companies build consumer confidence and improve corporate reputations through social responsibility programs and transparent risk management. This communication aims at giving stakeholders broader access to relevant information outside the financial sphere that also influences the company's performance.[ Arvidsson, S. 2019]

In the EU, the mandatory practice of sustainability reporting for certain companies is regulated by the Non-Financial Reporting Directive (NFRD),[ Lien, Duong 2015] recently revised and renamed Corporate Sustainability Reporting Directive (CSRD).

An increasing number of organizations are providing frameworks for sustainability reporting and are issuing standards or similar initiatives to guide companies in this exercise.

There is a wide range of terminology used to qualify this same concept of sustainability reporting: non-financial reporting, extra-financial reporting, social reporting, CSR reporting or even socio-environmental reporting.

### **2.3.5 GOVERNANCE DISCLOSURES**

This will include subject areas of the NSE corporate governance rating system. A key indicator of sustainability integration is a clear assignment of accountabilities and responsibilities for environmental, social and broader economic performance from the board level through the corporate or group executive to the executive and operational management of each business division within a company. strong governance and accountability are central to the effective implementation of a sustainable development strategy and to embedding sustainability in any organization. Good governance is about reaching sound decisions, putting measures in place to implement them and making clear the individuals and organizational structures accountable for delivery (NSE, 2018). An over arching governance system will provide oversight and support consistent delivery across all material issues. Good governance will have a number of different

elements which will include: defining responsibility and delivery clearly for management, embedding sustainability performance in the organisation's reporting and appraisal structures e.g. in staff performance assessments, coordinating management structures across the organization to ensure that the broad nature of sustainability issues does not lead to gaps in accountability emerging and operating and managing clear lines of reporting(NSE, 2018).

### **2.3.6 SOCIAL DISCLOSURES**

Social disclosure (also known as social accounting and auditing, social accountability, social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting or accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large.[Gray rob 2018] Social Accounting is different from public interest accounting as well as from critical accounting.

Social disclosure is commonly used in the context of business, or corporate social responsibility (CSR), although any organisation, including NGOs, charities, and government agencies may engage in social accounting. Social Accounting can also be used in conjunction with community-based monitoring (CBM).

Social disclosure emphasizes the notion of corporate accountability. D. Crowther defines social accounting in this sense as "an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques".[Cerin pontus 2017] It is an important step in helping companies independently develop CSR programs which are shown to be much more effective than government mandated CSR.[ Hein schreuder 2016]

Social disclosure is a broad field that can be divided into narrower fields. Environmental accounting may account for an organization's impact on the natural environment. Sustainability accounting is the quantitative analysis of social and economic sustainability.

### **2.3.7 ENVIRONMENTAL DISCLOSURES**

Environmental disclosure is a form of corporate responsibility for the environmental impacts caused by manufacturing activities. In practice, the preparation of sustainability reports or environmental disclosure still has considerable ambiguity (Bradford,2017). (Smith et al.2017) state that environmental disclosure information is material for stakeholders and is used to make various decisions. Many studies related to environmental disclosure take samples at high-profile companies (Rupley et al.,2016) or some studies call it environmentally sensitive industries (ESI) (Fatima et al.,2015; Radhouane et al., Citation2020). This kind of industry is characterized by its way of production process in removing residues including waste and pollution

Environmental disclosure is a field that identifies resource use, measures and communicates costs of a company's or national economic impact on the environment. Costs include costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs.(maso 2015)

An environmental accounting system consists of environmentally differentiated conventional accounting and ecological accounting. Environmentally differentiated accounting measures effects of the natural environment on a company in monetary terms. Ecological accounting measures the influence a company has on the environment, but in physical measurements.

Environment and environmental issues have become topical topics in most countries and globally in recent years. In particular, since the 1992 Earth Summit in Rio de Janeiro, the business community has continuously raised awareness of the need to achieve sustainable development and reduce the environmental impact of activities they cause. Sustainable development is the process of development that meets the needs of the present generation without harming the interests of future generations. Sustainable development represents a balance between economic growth and protecting the environment from destruction, mainly by using natural resources rationally and responsibly. As an essential part, enterprises have the responsibility to value, playing a key and decisive role in sustainable economic development. They account for environmental factors to act to protect the environment.(yakhou 2015)

## **2.4 EMPIRICAL REVIEW**

The foregoing is a review of empirical works on the relationship between sustainability disclosures and bank financial performance.

### **2.4.1 GOVERNANCE DISCLOSURES AND BANK'S FINANCIAL PERFORMANCE**

Banking supervision cannot function if there is no existence of what Hettes(2018) calls “correct corporate governance” since experience emphasizes the need for an appropriate level of responsibility, control and balance of competences in each bank. Hettes (2015) explained further on this by observing that correct corporate governance simplifies the management of a bank and the banking supervision authority. Bebeji, Mohammed and Tanko (2015) also emphasized the importance of corporate governance in the banking structure. They observed that corporate governance has significant effect on the performance of banks in Nigeria. They realized that while some corporate governance characteristics such as board composition positively influenced the performance of banks in Nigeria, other characteristics such as board size negatively affect the performance of banks in Nigeria. Several events are therefore responsible for the heightened interest in corporate governance of banks and every large firm have been a priority on the policy agenda in developed market economics for over a decade.

Broadly speaking, the conflicts among different corporate claim-holders are resolved by two types of mechanisms, especially the conflicts between owners and managers, and those between minority shareholders and controlling shareholders. Furthermore, a number of corporate governance mechanisms have been identified analytically and empirically. To better describe the current corporate governance practices, it is required to focus on a particular set of corporate governance mechanisms. These, according to Baic and Songs (2018).

From the foregoing definitions, it can be deduced that corporate governance is a system by which organization are managed and controlled.it targets transparency and accountability in an organization's processes with aim of fulfilling responsibilities to stakeholders, employees, consumers and the community its resides. On the other hand, financial performance is a

subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and it can be used to compare similar firm across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance. But all measures should be taken in aggregation. Lines items such as revenue from operations, operating income or cash flow from operations to be used as well as total unit sale. Bank performance simply refers to how well a bank is doing especially in reference to understand how well a bank is doing we need to start by looking at a bank's income statement, the description of the source of income statement, a bank profitability can also be seen as a measure of its return on asset (ROA) (Emeka & Alem 2015)

#### **2.4.2 SOCIAL DISCLOSURE AND BANK'S FINANCIAL PERFORMANCE**

The nature of relationship between corporate social performance disclosure and financial performance has been the subject of substantial academic research for many years. Empirical evidence has established that this relationship is complex and incoherent (Adrem,2017; Cormier et al., 2015), and the investigation process is theoretically intractable and methodologically subjective. Coinciding with recent corporate disaster, Corporate Social Responsibility Disclosure (SCRD)has received increasing attention as a complementary to financial statements for evaluating financial performance. General public now has high expectation of private sector for responsible behavior. Consumer expect goods and services to reflect socially and environmentally responsible business behaviour at competitive prices. Shareholders search for enhanced financial performance that integrate social and environmental considerations. A better understanding of corporate social disclosure and financial performance link is invaluable to managers, stockholder and stock holder of the corporations because social issues of today can evolve into financial issues of tomorrow.

The financial industry in particular the banking sector plays an important role in the economy. The Bank acts as a financial intermediary in the society. Thus, it is important that banks are well-managed and act responsibly. The concept of corporate social responsibility (CSR) is an integral concept for realizing a responsible banking practice. A responsible bank is believed that it will be

more sustainable in carrying out its role as an intermediary of funds in the society. This study is preliminary work that attempts to examine the social responsibility of banks in ASEAN-5. The objective of this research is to analyze the level of CSR in commercial banks in ASEAN-5, namely Indonesia, Philippines, Malaysia, Singapore, and Thailand in 2014. This study describes the level of CSR based on the analysis of disclosure in company's report using indicators from GRI G4 Sustainability Reporting Guidelines and GRI G4 Sector Disclosures: Financial Services. This study finds that the overall score of CSR disclosure of all listed banks is low. The CSR of commercial banks in Thailand is the highest. Banks, which published separate CSR or Sustainability Report, show a higher level of CSR compared to banks which include CSR section in their Annual Report. In addition, this study finds that CSR is positively correlated with financial performance.

The primary focus of this project is to extend earlier research on the relationship between sustainability disclosure and financial performance. previous studies are plagued by various measurement issues that have not yet be resolved, and consequent evidence has presented contradicting conclusions. Commercial banks are the subject of this research as motivated by their huge importance to the economy, the voluminous interactions with the general public, and in particular, their presence in the financial system in which the recent global recession had originated.

This project attempts to mitigate some of the measurement problems of earlier research by introducing a more simple yet comprehensive social disclosure measure on the foundation of previous social disclosure concept and explores for additional insight into the argument by analyzing the form of social disclosure and financial performance association in the context of the banking industries under different macroeconomic conditions. so far, the number of studies related to social disclosure and financial performance in the banking industry after financial crisis 2008 is limited.

### **2.4.3 Environmental Disclosure and Bank's Financial Performance**

Nowadays environmental issues as become an increasing prevalent issue discussed and received widespread attention from various parties. Indonesia environmental analysis report conducted by

the world bank (2016) states that inadequate environmental management is a challenge for Indonesia. The Indonesia government has been issuing numbers of policies that regulates the environment since 1982. legal basis in terms of environmental management in Indonesia is UU. 32 in 2009. The government has also reinforced the environmental management for the company in the UU No. 40 in 2007 regulating limited liability company in a number of article 3 and article 74, where the company also play a role in social and environmental responsibility. in addition, since 2002 MOE (Ministry of Environmental Management) which aim to encourage increased compliance of companies in environmental management and sustainable basis. In general, the assessment results PROSPER 2008- 2009 showed a decline as many new companies have sprung up to manage the environment in accordance with existing rules. Based on the environmental performance index(EPI) 2010 compiled by a team of environmental experts at Yale University and Columbia University, Indonesia was ranked 134th of 163 countries in the world with index 44.6. Indonesia's ranking in 2010 was declined, compared with index 66.2. a significant decline, indicating environmental management in Indonesia is getting worse, where one of them is due to lack of pollution control. For Indonesia, the environmental issues are important factors that must be considered given the impact of poor environmental management increasingly evident today (Ja'far & Arifah 2016). Inadequate environmental management has harmed the economy and the poor with a total cost of environmental damage that reacted nearly 10% of GDP per year (World Bank, 2019).

The increase global public awareness of environmental friendly products has made CSR become a global trend (Hartanti &Monika, 2018). According to Kiroyan (2016) in Sayeki and Wondabio (2017), the company expected to maximize long-term financial strength by implementing CSR. This shows that companies that disclose their social responsibilities in the annual report hope to be able to obtain a positive response from market participants. According to a news release by commission VII DPR RI (2015), one of the sectors most widely accused of being a source of environmental damage is the mining sector. Cahyono (2017) adds that there are other corporate sectors are also vulnerable to the environment, such as chemical, pharmaceutical and cement companies. The number of previous studies about the effects of environmental performance that shows inconclusive results, make this topic becomes interesting and important study. The study tried to re-examine the influence of the factors in previous studies using sustainability disclosure as a moderating variable to test the effect of environmental performance to financial performance

based on the background described above, the matter in this study can be formulated as whether the sustainability disclosure moderates the influence of environmental performance to financial performance.

Environmental risk straddles a number of these risks. In particular, it is a subset of credit, legal and reputation risk: Credit risk can arise indirectly where banks are lending to customers whose businesses are adversely affected by the costs of cleaning up pollution or by changes in environmental regulations. For example, the costs of meeting new requirements on emission levels may be sufficient to put some companies out of business. Banks may also find themselves directly affected if they find that the value of property that they have taken as collateral is impaired by contamination.

Legal risk can take a number of different forms. Most obviously, banks like other companies are at risk if they themselves do not comply with relevant environmental legislation. But more specifically, they are at risk of direct lender liability for clean-up costs or claims for damages if they have actually taken possession of contaminated or polluted property (Anthony 2015) causing property as a result of realising security. There is also the even more worrying prospect that in some jurisdictions the mere act of lending to a company or project which causes environmental problems may lead to the lender incurring some liability for clean-up costs. Banks may protest, with some justification, that they should not be forced into the role of “environmental police”, but this may carry little weight in some courts.

Reputation risk may arise even in the absence of lender liability, particularly if banks are seen as associated with large-scale projects that are viewed as socially or environmentally damaging, such as dam projects. The growth of globalized protest movements and the use of the internet to disseminate information have greatly increased the risk that individual companies will be the subject of concerted campaigns of public criticism. These are the risks, but it would also be wrong to ignore the opportunities that environmental protection can provide for banks and other financial institutions. Most obviously, the costs of cleaning up pollution and the need to invest in environmentally friendly technology imply the need for finance, either from the banks or the capital markets. Just to take one small example in the Nigeria context, the Government’s initiative to persuade diesel taxi owners to switch to LPG taxis creates the chance for the banks to finance the purchase of the new vehicles. Banks also need to bear in mind that while there will

be losers from the drive to cut pollution, there will also be winners in the shape of those companies which can exploit the new technologies to curb emissions. Another by-product from efforts to combat climate change will be the growth of emissions trading between companies.

## 2.5. THEORETICAL REVIEW

Sustainability is often analyzed around major theoretical framework. The most common theoretical framework is presented is presented in the following subsections.

### 2.5.1 STAKEHOLDERS THEORY

The stakeholder theory is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others.[Lin tom 2018] It addresses morals and values in managing an organization, such as those related to corporate social responsibility, market economy, and social contract theory.

The stakeholder view of strategy integrates a resource-based view and a market-based view, and adds a socio-political level. One common version of stakeholder theory seeks to define the specific stakeholders of a company (the normative theory of stakeholder identification) and then examine the conditions under which managers treat these parties as stakeholders (the descriptive theory of stakeholder salience).[Philips Roberts 2017]

In fields such as law, management, and human resources, stakeholder theory succeeded in challenging the usual analysis frameworks, by suggesting that stakeholders' needs should be put at the beginning of any action.[Baumfield victoria 2016] Some authors such as Geoffroy Murat tried to apply stakeholder's theory to irregular warfare.[Puyt fb 2017]

Numerous articles and books written on stakeholder theory generally identify Freeman as the "father of stakeholder theory".[Bidhan palmar 2015] Freeman's Strategic Management: A Stakeholder Approach (1984) is widely cited in the field as being the foundation of stakeholder theory,[miles Samantha 2017] although Freeman himself refers to several bodies of literature used in the development of his approach, including strategic management, corporate planning, systems theory, organization theory, and corporate social responsibility. A related field of research examines the concept of stakeholders and stakeholder salience, or the importance of various stakeholder groups to a specific firm.

More recent scholarly works on the topic of stakeholder theory that exemplify research and theorizing in this area include Donaldson and Preston in 1995, Mitchell, Agle, and Wood Friedman in 2002 and Miles and Phillips in 2003.

### 2.5.2 LEGITIMACY THEORY

Legitimacy theory posits that businesses are bound by the contract in which the firm agree to perform various socially desired actions in return for approval of its objectives and other rewards and this ultimately guarantees its continued existence .it highlights the extent to which corporate social and environmental disclosures are influenced by the boundaries established by the society in order to be appreciated and avoid being penalized by the community in which the company operates. Legitimacy is a generalized perception or assumption that the actions of an entity are desirable ,proper, or appropriate within some socially constructed system of norms values, beliefs, and definitions.

The new economic, social and environmental challenges dictate to the organizations and to the governments, to respect the rules, values and norms, and to voluntarily disclose social and environmental information in order to probe their compliance. Therefore, legitimacy theory plays the role of a justifiable factor for the disclosure of the environmental information. The global financial crisis and the instability of the financial markets put pressure on the organizations to re-evaluate their values system and to emphasize the importance of legitimacy. The correlation of the tangible financial resources with the intangible legitimacy resources is important for shaping a new organizational vision. Many scholars have criticized the

enhancement of the legitimacy theory (Mobus, Owen, 2018). Legitimacy theory was sometimes seen only as a 'plausible explanation of managerial motivations' without any real effort to determine how a disclosure "...may or may not promote transparency and accountability towards non-capital provider stakeholder groups" (Owen, 2018) and not like an instrument to be used for making viable predictions (Mobus, 2015). Thus, the organizations must voluntarily disclose social and environmental information in order to legitimate their legitimacy. The disclosure of information must be accompanied by concrete actions realized in compliance with social and environmental norms and values.

## **CHAPTER THREE**

### **Introduction**

This chapter details the relevant method, frame work and pattern as well as the research design of the study explaining the various ways employed in the collection of the data as well as analysis of the data

### **3.1 RESEARCH DESIGN**

This research is being carried out to prove that sustainability disclosure has an impact on the financial performance of banks. In other that the objectives in this research work might be achieved research design employed in this research is the longitudinal research design. It seeks to explain the relationship between the independent variable (sustainability disclosure) and dependent variable (financial performances of banks) over a period of time.

Secondary data would be sourced for the purpose of answering and testing the research hypothesis of this study.

### **3.2 SOURCES OF DATA**

The study used secondary annual data that covers the period from 2007 to 2011 obtained from the NDIC Annual reports for various years and the Nigerian stock exchange Annual reports/statistical bulletins and, economic and financial journals, using the desk survey method.

To check for and control probable sources of errors and spuriousness of results as well as maintain stochastic stability, data are compared from at least three different sources before acceptance and subsequently tested for stationarity. As a result of the time that has elapsed between when these frauds were consummated and the time of this study, as well as the unwillingness of companies to provide information on their firm performance (Onanuga and Oshinloye, 2015), the assessment tool of practical oral interviews/questionnaire was dispensed off and reliance placed on secondary data obtained as indicated above.

### **3.3 POPULATION AND SAMPLING**

The population for this research work includes secondary data from annual reports of selected banks obtained from the Nigerian stock exchange facts book from 2014 to 2021 using the judgmental sampling technique this study selected 10 out of the listed banks the time frame considered for this study,

### **3.4 SOURCES OF DATA COLLECTION**

The major source of data collection of this research work is the annual report of 10 commercial banks for a period of seven years ( 2014-2021). The research instruments used includes data extracted from financial statement and annual report of the commercial banks

### **3.5 METHOD OF DATA ANALYSIS**

This study attempts to establish a causal relationship between two variables; banks financial performance and sustainability disclosures In investigating the association between sustainability disclosures and the financial performance of listed companies in Nigeria, the research covered 10 listed banks. These companies were selected randomly from 9 major sectors over a period of 7 year which is from 2014-2021.

The method adopted for the analysis of this data was chosen to give assurance to a realistic level of the relationship between corporate attributes and financial performance.

The data gathered for this study are mainly secondary, the ordinary least square (OLS) regression method of data analysis will be used to determine and measure the relationship between the independent variable and the dependent variable.

Residual diagnostic tests would also be executed in order to certify the adequacy of the OLS regression on the developed model.

### 3.6 MEASUREMENTS OF VARIABLES

Financial performance is the dependent variable and it is measured using return on assets (ROA), return on equity (ROE) and Tobin's Q. The independent variable include environmental disclosure, social disclosure and economic disclosure. This is summarized in table 1

VARIABLES	MEASUREMENT	APRIORI SIGN
Return on Assets (ROA)	Calculated by dividing the earnings before interest and taxes (net of non-recurring transaction) by the total assets	+ positive
Return on equity (ROE)	Calculated by dividing the earnings after tax (net of non-recurring transaction) by the number of ordinary shares issued.	+positive
Tobin's Q	Calculated as market value of equity plus book value of debt divided by book value of assets	+positive
Governance disclosure	It is measured by the independent directors to the ratio of the total board of directors of a bank in a particular financial year.	+positive
Social disclosure	It is measured by the donations to the community by the bank in a particular financial year.	+positive
Environmental disclosure	If the environment disclosure is mention in the financial statement gathered then it should be 1 if its is not referenced or sited in the books of account then it will be 0	+ positive

### 3.7 MODEL SPECIFICATION

Three models are specified for the study. Each of the models capture different variants of banks' financial performance utilized in the study. The models are presented as follows

Model1

$$RETOA_t = \alpha_0 + \alpha_1 GOVDIS_t + \alpha_2 SOCDIS_t + \alpha_3 ENVDIS_t + E_t$$

Model 2

$$RETOE_t = \beta_0 + \beta_1 GOVDIS_t + \beta_2 SOCDIS_t + \beta_3 ENVDIS_t + E_t$$

Model 3

$$FINPER_t = \lambda_0 + \lambda_1 GOVDIS_t + \lambda_2 SOCDIS_t + \lambda_3 ENVDIS_t + E_t$$

**Where**

RETOA= RETURN ON ASSETS

RETOE= RETURN ON EQUITY

GOVDIS= GOVERNANCE DISCLOSURE

SOCDIS= SOCIAL DISCLOSURE

ENVDIS= ENVIRONMENTAL DISCLOSURE

FINPER= FIRM PERFORMANCE

E<sub>T</sub>= ERROR TERM

$\alpha_0$   $\beta_0$   $\lambda_0$ = CONSTANT OF REGRESSION MODELS

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSES OF RESULTS

#### 4.1 Introduction

The study evaluates the moderating effect of agency cost on the relationship between corporate governance and tax aggressiveness of listed firms in Nigeria drawing samples from non-financial listed firms for the period 2010 to 2019. While tax aggressiveness (measured as cash effective tax rate) is employed as the dependent variable, the independent variables employed for this study includes: Board Size, Board Independence, Managerial Ownership, Board Gender Diversity, Institutional Ownership, and Foreign Ownership. Furthermore, agency cost was proxied by free cash flow to moderate the relationship between corporate governance (Governance Compliance & Governance Disclosure) and tax aggressiveness for the period under review. Particularly, some pre regression analyses were conducted which include; summary statistics, correlation matrix, and normality of residua analyses. However, the hypotheses were tested using Least Square Dummy Variable regression technique which was observed to be the most suitable regression technique for this study. However, the results obtained from Table 4.1a and 4.1b describes the nature of the data by revealing the mean (average), median, maximum, minimum, standard deviation and sum for each of the variables of interest in relation to fiscal year (time period) and in terms of exchange sector which were chosen. Overall, the result obtained from the descriptive statistics tables provides some meaningful insights into the selected quoted non-financial companies that were employed for this study.

Table 4.1a Descriptive Statistics by Firm Year

fiscalyear	tag	bdind	bds	bdgd	mown	fown	instown	incetr	govdi
2010	1.892888	69.24133	9.2	6.323556	.1179044	.5111111	.4668889	.8535557	.81
	11.27	70	9	7.69	.0163	1	.52	-17.34	
	91.62	93.33	15	20	.6127	1	.95	300	
	-607.21	37.5	5	0	.0003	0	0	-52.47	
	94.81591	16.4674	2.50998	6.445943	.1769555	.505525	.259981	57.94877	.21
	85.17998	3115.86	414	284.56	5.3057	23	21.01	38.41001	
2011	22.67267	69.46467	9.133333	6.448889	.1256711	.5111111	.4722222	-7.932667	.80
	18.73	70	9	7.69	.0382	1	.52	-19.5	
	216.91	93.33	15	22.22	.7484	1	.95	74.06	
	-2.53	42.86	5	0	0	0	0	-51.28	
	37.02812	16.11452	2.491805	6.912069	.1801918	.505525	.2638258	29.58345	.22
	1020.27	3125.91	411	290.2	5.6552	23	21.25	-356.97	
2012	30.39578	65.17044	8.933333	9.076222	.1249289	.4888889	.4835556	1.350666	.80
	18.59	66.67	9	7.69	.0465	0	.52	-10	
	299.82	85.71	13	33.33	.5895	1	.95	215.04	
	-15.64	25	5	0	.0002	0	0	-89.35	
	61.1795	12.56155	2.071451	10.38915	.1643399	.505525	.2566671	47.53231	.22
	1367.81	2932.67	402	408.43	5.6218	22	21.76	60.77998	
2013	8.865556	63.938	9	8.243778	.13012	.4888889	.5071111	-5.404667	.80
	14.86	66.67	9	0	.0389	0	.54	-25.48	
	61.95	84.62	13	33.33	.8432	1	.91	806.68	
	-370	25	5	0	.0002	0	0	-150.68	
	60.18934	12.68784	2.215647	10.3027	.2007932	.505525	.2437176	126.9121	.22
	398.95	2877.21	405	370.97	5.8554	22	22.82	-243.21	
2014	11.90244	62.91844	9.377778	8.489111	.1243844	.4888889	.52	-22.90733	.77
	15.17	66.67	9	0	.0209	0	.57	-23.83	
	48.78	85.71	19	33.33	.8444	1	.91	34.76	
	-190.42	25	4	0	.0001	0	0	-134.27	
	34.58121	14.19211	3.277256	10.9605	.2010571	.505525	.2341911	28.61487	.25
	535.61	2831.33	422	382.01	5.5973	22	23.4	-1030.83	

2015	15.16022	64.916	9.488889	11.39111	.1379022	.5111111	.5248889	-15.71156
	12.25	66.67	9	8.33	.0142	1	.62	-19.05
	82.95	83.33	17	40	.8444	1	.91	135.33
	-32.73	25	4	0	.0001	0	0	-53.55
	21.92565	12.56646	3.130656	12.41277	.2204	.505525	.2444253	31.48664
	682.21	2921.22	427	512.6	6.2056	23	23.62	-707.02
2016	23.65933	66.17156	9.111111	10.24978	.1366111	.5111111	.5331111	-3.081556
	10.28	66.67	9	10	.0142	1	.62	-27.12
	336.93	90	17	40	.7184	1	.91	1179.32
	-81.58	25	4	0	.0001	0	0	-174.06
	66.44229	12.95774	3.016788	10.87725	.2125405	.505525	.2445852	184.1541
	1064.67	2977.72	410	461.24	6.1475	23	23.99	-138.67
2017	50.17311	75.41422	9.222222	11.614	.2010889	.4888889	.5688889	-113.8493
	17.68	77.78	9	11.11	.0283	0	.62	-27.45
	762.49	94.44	18	40	2.5496	1	1	586.55
	-10.01	25	4	0	.0001	0	0	-4108.4
	151.0989	13.32396	3.132592	11.32655	.4312468	.505525	.2462466	627.8191
	2257.79	3393.64	415	522.63	9.049	22	25.6	-5123.22
2018	8.590454	75.16333	9.355556	13.224	.2028133	.475	.5442222	-23.46136
	4.725	77.78	9	12.5	.0254	0	.6	-27.835
	120.42	94.12	18	40	2.5457	1	.9	75.09
	-249.19	0	4	0	.0001	0	0	-160.58
	49.90666	15.63605	3.549363	11.44163	.426356	.5057363	.2413079	36.50412
	377.98	3382.35	421	595.08	9.1266	19	24.49	-1032.3
2019	13.01614	74.50067	9.555556	12.98911	.2472156	.4888889	2.052444	-24.23955
	7.375	75	9	11.76	.0402	0	.63	-26.295
	109.32	92.86	18	40	2.5457	1	68	74.25
	-36.21	44.44	5	0	.0001	0	0	-124.66
	26.48015	12.53081	3.448027	11.35238	.4616655	.505525	10.05756	34.01863
	572.71	3352.53	430	584.51	11.1247	22	92.36	-1066.54

Descriptive Statistics by Firm Year Continued

Total	18.66781	68.68987	9.237778	9.804956	.154864	.4966292	.6673333	-21.42761
	11.165	70	9	9.09	.0264	0	.57	-23.3
	762.49	94.44	19	40	2.5496	1	68	1179.32
	-607.21	0	4	0	0	0	0	-4108.4
	71.23038	14.58703	2.903633	10.57499	.2911169	.5005514	3.190884	214.0647
	8363.18	30910.44	4157	4412.23	69.6888	221	300.3	-9599.57

Author's Computation (2021)

From the Table 4.1a, it was observed that the average cash effective tax rate is 30.395 in year 2012. However, a reduction in the value of income effective tax rate from -0.92 in year 2012 to -3.11 in year 2013, -23.62 in year 2014, and -98.66 in year 2017 was noticed. For the variable of board size, it was observed that 9 members made the average board size across the years under the study. Board independence increased from 63% in year 2012 to 64% in year 2015, 66% in year 2016, 76% in year 2017 and year 2018. On average it was observed that the level of managerial ownership rallied around 0.15 and 0.16 during the period under investigation except in year 2017 and year 2018 where it showed an increase to 0.22 and 0.21 respectively. For the variable of board gender diversity, on the average, the ratio of female directors to male directors on the board for the firms under consideration was 10% in year 2012, against 9% in year 2013. The descriptive statistics also revealed that on average, more females were constituted into the board for the firms in our sample in year 2018. Institutional ownership on average is seen to be 50% in year 2012 and showed an increase in the period after the base year as revealed] by the Table; year 2013 (51%), year 2014 and 2015 (52%), year 2016 and 2017 (53%), as well as 56% in both year 2017 and 2018. Foreign ownership on the other hand fell from 51% in the year 2012 to 49% in year 2013. However, it was observed that foreign ownership was highest for the firms in our sample during the period 2015 and 2016. The moderator variable of free cash flow on average showed a constant increase from 3.59 in year 2012 to 5.21 in year 2013, 6.00 in year 2015 to 6.84 in year 2016, peaking at 7.28 in year 2018. For the control variable of cash effective tax rate, there was an average of 26.84 in year 2012, 8.21 in year 2013, 11.93 in year 2014, 14.63 in year 2015, 22.17 in year 2016, 43.10 in year 2017, and 2.46 in year 2018. A further comparative statistic of the different sectors in this study is presented in the table 4.1b:

erage all the sectors within the sample had positive cash effective tax rate (18.667). However, firms within the consumer goods sector had an average cash effective tax rate of (27.55), followed by firms within the health care sector (21.32), industrial sector (14.48), conglomerate (10.8022) and agricultural sector (8.163). For the variable of board size, it is noticed that firms in the consumer goods sector had more members on the board (11) compared to other sectors such as Agricultural sector (9), Healthcare (9), and Industrial sector (9). Notably, firms in the industrial and agricultural sector appeared to be more independent on their boards while firms within the Natural Resources sector had the lowest independent board (61%) during the period under investigation.

On average managerial ownership was highest for firms in the healthcare sector (0.36) compared to firms in the industrial sector (0.13%), agricultural sectors (0.21), and conglomerate sector (0.17). More than this, on average, firms in the Natural Resources sector had a gender diverse board of 0.73% compared to firms in other sectors; consumer goods 12%, industrial sector 11.02%, agricultural sector 8.0%, healthcare sector 10.55%, and conglomerate 5.47%. this leads to a simple conclusion that corporate boards within the natural resources sector were more gender based during the period under review. Furthermore, it was observed, on average firms within the conglomerate industry (1.79) showed more interest in institutional shareholding closely followed by those within the consumer goods industry (0.61%) and then those within the industrial goods industry (0.53%). However, for the variable of foreign ownership, it is revealed that on average consumer goods sector has the highest size of foreign ownership (62%) while firms in the Natural Resources had the least (25%).

#### 4.1.2 Normality of Residua Test

In all branches of knowledge, it is necessary to apply statistical methods in a sensible way. In literature, statistical misconceptions are conventional. The most commonly used statistical methods are correlation, regression and experimental design. But all of them are based on one basic assumption, that the observation follows normal (Gaussian) distribution. So, it is assumed that the populations from where the samples are collected are normally distributed. For this reason, the inferential methods required checking the normality assumption (Bera & Jarque 1982). However, the null hypothesis is that “sample distribution is normal.” If the test is significant, the distribution is non-normal. Following the results of Mendes and Pala (2003); who concluded that Shapiro-Wilk test is the most powerful normality test under the condition that the observation must not be less than 10 and not greater than 4000. Consequently, the test for normality of residua was conducted as shown in the table 4.2

**Table 4.2 Test for Normality of Residua**  
**Shapiro-Wilk W test for normal data**

Variable	Obs	W	V	z	Prob>z
tag	448	0.40995	179.817	12.419	0.00000
bdind	450	0.96602	10.397	5.602	0.00000
bds	450	0.95995	12.254	5.995	0.00000
bdgd	450	0.97561	7.464	4.809	0.00000
mown	450	0.55940	134.809	11.732	0.00000
fown	445	0.99978	0.067	-6.474	1.00000
instown	450	0.05150	290.213	13.566	0.00000
incetr	448	0.15181	258.484	13.287	0.00000
govdiscagc	450	0.97808	6.707	4.553	0.00000
govcompagc	450	0.89470	32.219	8.308	0.00000

**Author’s Computation (2021) STATA 16 Output**

From the results obtained in table 4.2, it was observed that the dependent variable of tax aggressiveness (Prob > z = 0.00000) is not non-normally distributed since the probability of the z-statistics is significant at 1%. The same can be said for the independent variables of board size

(Prob > z = 0.00000), board independence (Prob > z = 0.00000), managerial ownership (Prob > z = 0.00000), board gender diversity (Prob > z = 0.00000), institutional ownership (Prob > z = 0.00000), governance disclosure moderator (Prob > z = 0.00000) governance compliance moderator (Prob > z = 0.00000) and the control variable of income effective tax rate (Prob > z = 0.00000). However, it was observed that the independent variable of foreign ownership (Prob > z = 1.00000) is normally distributed since the probability of the z-statistics is neither significant at 1% or 5%. The justification of this conclusions/interpretations followed the study of Bera and Jarque (1982).

Table 4.3 Spearman Rank (r) Test for Collinearity

	tag	bdind	bds	bdgd	mown	fown	instown	incetr	govdiscagc	govcompagc
tag	1.0000									
bdind	-0.1550* 0.0011	1.0000								
bds	0.0370 0.4372	0.2205* 0.0000	1.0000							
bdgd	0.1613* 0.0007	-0.0435 0.3607	0.1536* 0.0012	1.0000						
mown	-0.2041* 0.0000	-0.1055* 0.0264	-0.1810* 0.0001	-0.0964* 0.0425	1.0000					
fown	0.0646 0.1747	0.0607 0.2024	0.1832* 0.0001	-0.0645 0.1756	-0.5453* 0.0000	1.0000				
instown	0.0255 0.5927	0.1084* 0.0225	0.1431* 0.0025	-0.0362 0.4474	-0.4155* 0.0000	0.2978* 0.0000	1.0000			
incetr	-0.2089* 0.0000	-0.0113 0.8121	0.0135 0.7771	-0.1191* 0.0121	0.1170* 0.0138	0.0108 0.8203	-0.1342* 0.0047	1.0000		
govdiscagc	0.1412* 0.0029	0.1378* 0.0037	0.4163* 0.0000	0.1770* 0.0002	-0.0657 0.1675	0.1337* 0.0048	0.2328* 0.0000	-0.0463 0.3307	1.0000	
govcompagc	0.1937* 0.0000	-0.0951* 0.0455	-0.0009 0.9853	0.1610* 0.0007	-0.1195* 0.0119	0.0919 0.0532	0.1156* 0.0150	0.0206 0.6647	0.0893 0.0603	1.0000

Author's Computation 2021

### 4.1.3 Correlation Analysis

Correlation is a bivariate analysis that measures the strength of association between two variables and the direction of the relationship. In terms of the strength of relationship, the value of the correlation coefficient varies between +1 and -1. A value of  $\pm 1$  indicates a perfect degree of association between the two variables. As the correlation coefficient value goes towards 0, the relationship between the two variables becomes weaker. The direction of the relationship is indicated by the sign of the coefficient; such that a positive sign indicates a positive association while a negative sign indicates a negative association. With non-normal data which the test result reveals, alternatives to the Pearson approach might be justified. The robustness of Spearman's versus Pearson's test has received relatively less empirical scrutiny. One of the few studies, Fowler (1987) found that Spearman's  $r$  is more powerful than Pearson's  $r$  across a range of non-normal bivariate distributions. The power benefit of Spearman's  $r$  may be the result of rank-ordering causing outliers to contract toward the centre of the distribution (Gauthier, 2001). Upon this understanding and based on the fact that the data set followed a non-normal distribution, the Spearman Rank Correlation technique was employed to conduct the correlation analyses between the variables of interest shown in the table 4.3

Specifically, the analysis from the spearman rank correlation in table 4.3 showed that board size (0.0370), board gender diversity (0.1613) institutional ownership (-0.1429), foreign ownership (0.0646) as well as governance disclosure moderator (0.1412) and governance compliance moderator (0.1937) are positively correlated with tax aggressiveness. However, for board independence (-0.1550), managerial ownership (-0.2041), as well and the control variable of income effective tax rate (-0.2089) are negatively correlated with tax aggressive tax rate during the period under investigation. However, the strength of associations among them is seen to be

weak (less than 80%) as posited by Gujarati (2003) after such point there is room to suspect the presence of multicollinearity in the estimated model.

**Table 4.4: Variance Inflation Factor (VIF) Test**

Variable	VIF	1/VIF
fown	1.28	0.780052
mown	1.21	0.826550
bds	1.16	0.859957
bdind	1.08	0.930125
bdgd	1.05	0.949775
incetr	1.02	0.981693
instown	1.01	0.991723
Mean VIF	1.12	

**Author’s Computation, (2021)**

Multicollinearity occurs in multiple regression models and it applies to a situation where two or more independent variables are found to be collinear. Multicollinearity occurs if some of the independent variables are highly inter-correlated. In a nut shell, if multicollinearity is found among the independent variables of interest, it means that they are perfectly co-linear. When this happens, the parameter coefficients will be indeterminate and the standard error of the estimated coefficients becomes bloated. In this study the variance inflation factor was employed, one of the most celebrated technique (Variance Inflation Factor (VIF) to test for the presence or absence of multicollinearity in the specified model.

According to Gujarati (2003), there is no consequence of multicollinearity if the mean VIF is less than 10 or 1/VIF is less than 0.10. However, the VIF result in table 4.4 depicts the absence of multi-collinearity since the mean VIF (1.12) is within the region of 10 against which the presence of multicollinearity may be suspected.

#### 4.1.5 Regression Analysis

Table 4.5 Least Square Dummy Variable Regression Analyses Result

Variable	Un-Moderated Model	Governance Disclosure Moderated Model	Governance Compliance Moderated Model
Board Independence	-.1495901 -0.74 0.4566	-.10515083 -0.52 0.6009	-.12534373 -0.62 0.5322
Board Size	-.67949583 -0.64 0.5254	-.50087095 -0.47 0.6391	-.45391197 -0.42 0.6721
Board Gender Diversity	.7793243 2.84 0.0045	.68319716 2.47 0.0134	.70207022 2.54 0.0109
Managerial Ownership	-9.1245939 -0.86 0.3902	-7.6801097 -0.73 0.4684	-8.2720622 -0.78 0.4348
Foreign Ownership	4.6165624 0.72 0.4720	4.0775069 0.64 0.5237	3.4207585 0.53 0.5945
Institutional Ownership	-.66694055 -0.77 0.4438	-.6933205 -0.80 0.4239	-.73161531 -0.84 0.3996
Income Effective tax Rate	-.17023203 -13.00 0.0000	-.17123697 -13.13 0.0000	-.17092834 -13.09 0.0000
Gov. Disclosure Moderated		.69193895 2.23 0.0259	
Gov. Compliance Moderated			.29715717 1.98 0.0472
Constant	22.508506 1.45 0.1477	17.134772 1.09 0.2740	18.701242 1.20 0.2310
N	443	443	443
r <sup>2</sup>	0.2855	0.2906	0.2895

### **Author's Computation, (2021)**

First, the study carried out Panel Least Square Regression analysis and proceeded to check for the presence of fixed and random effect. The fixed effect estimator employed for the unmoderated tax effective model, corporate governance disclosure/agency cost moderated model and corporate governance compliance/agency cost moderated model clearly suggest the presence of fixed effects from the fixed effect estimators but an absence of random effects noticeable from the random effect estimators. The result obtained from the significant probability values (Unmoderated Corporate governance tax effective model = Prob > F = 0.0269), corporate governance disclosure/agency cost moderated model (Prob > F = 0.0326) and corporate governance compliance/agency cost moderated model (Prob > F = 0.0261) shown in the respective fixed effect models. Furthermore, the Breusch and Pagan Lagrangian multiplier test for random effects clearly supports the absence of random effects which is visible from (Unmoderated Corporate governance tax effective model = Prob >  $\chi^2$  = 0.0595), corporate governance disclosure/agency cost moderated model (Prob >  $\chi^2$  = 0.0666) and corporate governance compliance/agency cost moderated model (Prob >  $\chi^2$  = 0.0556). Consequent upon the results obtained, fixed effect was corrected upon which the hypotheses of the study were tested by introducing Least Square Dummy Variable (LSDV) Regression. This technique has been previously employed by Jizi, Salama, Dixon and Stratling (2014) in similar situations. However, the results obtained from the Least Square Dummy Variable regression analyses for all three models of this study is summarized in the table 4.5;

A careful examination of the results provided by the least square dummy variable regression analyses suggest appropriateness as it relates to the dependent variable of effective tax rate for

the period under investigation. Particularly, the *Within*  $R^2$  value of 0.2855 of the unmoderated corporate governance tax aggressiveness model indicate that about 29% of the variation in the dependent variable is explained by all the independent. It translates to the fact that the variation in the dependent variable is left unexplained but have been captured in the error term. The model goodness of fit as captured by the Wald statistics  $\chi^2(9) = 226.36$  with corresponding probability value 0.0000 suggests that the overall model is fit and good for policy recommendation (Gujarati 2003). Therefore, this model is relied on for interpretation and subsequent policy formulation.

## 4.2 Test of Hypotheses

**Hypotheses 1:** *There is no significant relationship between board independence and tax aggressiveness of listed non-financial firms in Nigeria.*

The result obtained from the least square dummy variable regression model revealed that board independence has no significant relationship with tax aggressiveness during the period under investigation. This is shown as; Board Independence (*un-moderated*; Coef. = -0.1495,  $z = -0.74$  and P -value = 0.4566). Following the results above, it is revealed that the relationship between board independence and tax aggressiveness is negative and statistically insignificant even at 5% level. However, this finding is consistent with the null hypothesis which states that *there is no significant relationship between board independence and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 2:** *There is no significant relationship between board size and tax aggressiveness of listed non-financial firms in Nigeria.*

The result obtained from the least square dummy variable regression model revealed that board size has no significant relationship with tax aggressiveness of listed non-financial firms in Nigeria during the period under investigation. This is shown as; Board Size (*un-moderated*; Coef. = -0.6794,  $z = -0.64$  and P -value = 0.5254). Following the results above, it is revealed that the relationship between board size and tax aggressiveness is negative and statistically insignificant

even at 5% level. However, this finding is consistent with the null hypothesis which states that *there is no significant relationship between board size and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 3:** *There is no significant relationship between board gender diversity and tax aggressiveness of listed non-financial firms in Nigeria.*

The least square dummy variable regression model revealed that board gender diversity has a significant positive relationship with tax aggressiveness of listed non-financial firms in Nigeria during the period under investigation. This is shown as; Board gender diversity (*un-moderated*; Coef. = 0.7793,  $z = 2.84$  and P -value = 0.0043). Following the results above, it is revealed that the relationship between board gender diversity and tax aggressiveness is positive and statistically significant even at 5% level. The result implies that ceteris paribus a more gender balanced (unbiased) board is tax aggressive. However, this finding is inconsistent with the null hypothesis hence we accept the alternate hypotheses which states that *there is a significant relationship between board gender diversity and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 4:** *There is no significant relationship between managerial ownership and tax aggressiveness of listed non-financial firms in Nigeria.*

The result obtained from the least square dummy variable regression model revealed that managerial ownership has no significant relationship with tax aggressiveness of listed non-financial firms in Nigeria during the period under investigation. This is shown as; Managerial Ownership (*un-moderated*; Coef. = -9.1245,  $z = -0.86$  and P -value = 0.3902). Following the results above, it is revealed that the relationship between managerial ownership and tax aggressiveness is negative and statistically insignificant even at 5% level. However, this finding

is consistent with the null hypothesis which states that *there is no significant relationship between managerial ownership and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 5: *There is no significant relationship between board foreign ownership and tax aggressiveness of listed non-financial firms in Nigeria.***

Furthermore, the result obtained from the least square dummy variable regression model revealed that board foreign ownership has no significant relationship with tax aggressiveness of listed non-financial firms in Nigeria during the period under investigation. This is shown as; Board Foreign Ownership (*un-moderated*; Coef. = 4.6165,  $z = 0.72$  and P -value = 0.4720). Following the results above, it is revealed that the relationship between board foreign ownership and tax aggressiveness is positive and statistically insignificant even at 5% level. However, this finding is consistent with the null hypothesis which states that *there is no significant relationship between board foreign ownership and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 5: *There is no significant relationship between institutional ownership and tax aggressiveness of listed non-financial firms in Nigeria.***

For this hypothesis, the result obtained from the least square dummy variable regression model revealed that institutional ownership has no significant relationship with tax aggressiveness of listed non-financial firms in Nigeria during the period under investigation. This is shown as; Institutional Ownership (*un-moderated*; Coef. = -0.6669,  $z = -0.77$  and P -value = 0.4438). Following the results above, it is revealed that the relationship between institutional ownership and tax aggressiveness is positive and statistically insignificant even at 5% level. However, this finding is consistent with the null hypothesis which states that *there is no significant*

*relationship between institutional ownership and tax aggressiveness of listed non-financial firms in Nigeria.*

**Hypotheses 7:** *Agency cost has no significant moderating effect on the relationship between corporate governance compliance and tax aggressiveness of listed non-financial firms in Nigeria.*

The results obtained from the least square dummy variable regression revealed that agency cost proxied by free cashflow has a significant moderating effect on the relationship between corporate governance compliance and tax aggressiveness during the period under investigation. This is shown as; Corporate governance compliance moderator (*compliance model*; Coef. = 0.2971,  $z = 1.98$  and P -value = 0.0472). Following the result above, it is revealed that the moderating effect of agency cost on the relationship between corporate governance compliance and tax aggressiveness is positive and significant at 5% level. This finding implies that as managers imbibe compliance practices of good corporate governance together with higher free cash flow the firm tends to benefit from tax aggressive practices. This finding is inconsistent with the stated null hypothesis which leads us to accept the alternative hypotheses noting that agency cost has a significant moderating effect on the relationship between corporate governance compliance and tax aggressiveness of listed non-financial firms in Nigeria.

**Hypotheses 8:** *Agency cost has no significant moderating effect on the relationship between corporate governance disclosure and tax aggressiveness of listed non-financial firms in Nigeria.*

The results obtained from the least square dummy variable regression revealed that agency cost proxied by free cashflow has a significant moderating effect on the relationship between corporate governance disclosure and tax aggressiveness during the period under investigation. This is shown as; Corporate governance disclosure moderator (*disclosure model*; Coef. = 0.6919,  $z = 2.23$  and P -value = 0.0259). Following the result above, it is revealed that the moderating effect of agency cost on the relationship between corporate governance disclosure and tax aggressiveness is positive and significant at 5% level. This finding compliment good corporate governance compliance model described above. Furthermore, the finding implies that ceteris

paribus managers that adequately disclosure corporate governance information together with a simultaneous increase in free cash flow will significantly benefit from tax aggressive practices. This finding is inconsistent with the stated null hypothesis which leads to accepting the alternative hypotheses noting that agency cost has a significant moderating effect on the relationship between corporate governance disclosure and tax aggressiveness of listed non-financial firms in Nigeria.

### **4.3 Discussion of Findings**

The result from the least square dummy variable regression is consistent with the stated null hypothesis which connotes that board size has no significant relationship with tax aggressiveness of listed non-financial firms in Nigeria. This result negates prior findings of Minnick and Noga (2010), they noted that larger boards tend to strengthen good tax management, promoting less aggressive tax policies and practices. Furthermore, findings from this study is evidenced to be inconsistent with the findings of Ogbeide and Obaretin (2018) Lanis and Richardson (2007), Vafeas (2010); Mahenthiran and Kasipilai (2012) who concluded that larger boards are effective towards tax compliance, noting that although it attracts huge cost, they will consequently make sound policies regarding tax planning strategies that are within the ambit of the rules and regulations to the authorities. However, our result is seen to be consistent with those of Odoemela Ironkwe and Nwaiwu (2016) Onyali and Okafor (2018) Fakunle and Josiah (2019), Aliani and Zarai (2012) Koanantachai (2013); Zemzam and Flouhi (2013) who documented a non-significant relationship between board size and tax aggressiveness. They found that larger board of directors' does not significantly influence the strategies to minimize tax expenses.

Furthermore, findings from this study analyses implies that a more independent board has no significant relationship with tax aggressiveness which is inconsistent with those of Ibrahim et al. (2003) who conclude that independent directors have a crucial role in the reduction of managerial opportunism due to the effective control of a firm's management policy. It was observed that our result negates the claims of Minnick and Noga (2010); Erle (2008) who noted that board of directors bears the ultimate responsibility for fulfilling the tax obligations of the corporation, since they are involved directly in corporate tax planning strategy. However, our finding is in line with those of (Chan et al. 2013).

Particularly, the results obtained from this study indicate that the relationship between managerial ownership and tax aggressiveness is insignificant. This outcome varies from those of Ogbeide and Obaretin (2018); Ribero et al., (2015), Khurana and Moser, (2013); Chen, et al., (2010); Chan et al (2013) and Boussaidi and Hamed (2015); Armstrong, et al. (2011); Ying (2011), Chan et al. (2013) who document a significant positive relationship between managerial ownership and tax aggressive activities indicating that managerial ownership is used to remedy agency problems and conflict of interest between managers and shareholders. But our result is seen to be consistent with those of (Landry, Deslandes & Fortin 2013).

Specifically, the positive significant relationship between board gender diversity and tax aggressiveness is seen to be consistent with the position of Onyali and Okafor (2018) Croson and Gneezy (2009) as well as with those of Hasseldine (1999) who documented that women do have higher levels of tax compliance while men do show lower level of tax compliance. Similarly, Lewis, Carrera, Culls and Jones (2009) supports their position and opined that women are often judged more suitable than men. Findings from this study supports the view that women have more ethical values than men and their presence on the board increases tax conservative

strategies. consequently, our result validates those of Boussaidi and Hamed (2015), Kastlunger et al. (2010), Vacca et al. (2020) whose findings supports the role of women directors in a tax conservative corporate environment. However, our finding does not support those of Oyeleke, Erin and Emeni (2016) who documented a positive insignificant relationship between tax aggressiveness and board gender diversity in Nigeria.

More than these, it was observed that the relationship between institutional ownership and tax aggressiveness is insignificant for non-financial firms during the period under review. This may be attributed to low levels of institutional investors involved in the scheme of corporate activities in Nigeria. However, the finding is seen to negate those of Khan et al. (2017); Khurana and Moser (2013); Mappadang, Widyastuti and Wijaya (2018) who documented that firms having high levels of institutional ownership are less tax aggressive since institutional investors are more concerned about long-term consequences of tax-aggressive strategies. This study aligned findings with that of Lanis and Richardson (2011) and Richardson et al. (2013) whose study indicate an insignificant relationship between institutional ownership and tax aggressiveness.

On the relationship between foreign ownership and tax aggressiveness the statistical insignificant relationship is inconsistent with those of Annuar, Salihu and Obid (2014); Martinez and Ramalho (2014); Rawiwan (2013); Christensen & Murphy, (2004); Hines & Rice, (1994); Kinney & Lawrence, (2000) who concluded that inclusion of more foreign ownership shareholding will increase tax aggressiveness. According to Peter (2019), foreign ownership will increase the level of capital income taxation that may materialize where there is no international tax policy coordination. Furthermore, it is established that foreign ownership is affected if countries increase their welfare through coordination of tax policies and that the tax coordination

policy will either increase or decrease the capital income tax levels. However, our result is seen to be consistent with those of Otieno (2014) who documented an insignificant relationship between tax effectiveness and foreign ownership.

Particularly, the crux of this study is to examine the moderating effect of agency cost which exist on the relationship between corporate governance and tax aggressiveness in Nigeria. However, this is a novel study as new grounds are achieved via evidence obtained from the analysis. In this study, it was discovered that agency cost moderated the relationship between corporate governance compliance and tax aggressiveness. Beyond this, a striking information obtained is that the relationship between governance disclosure and tax aggressiveness is positively and significantly moderated by agency cost (free cash flow) during the period under review. Clearly, the result supports the fact that tax aggressive firms (non-financial) do not adequately comply to corporate governance rules and regulation nor do they disclose its required corporate governance information in their annual reports. This is a typical representation of a developing country such as Nigeria where supervisory, monitoring and regulatory agencies are weak and, in most cases, non-existent (Salaudeen, 2017; Noor, Mastuki, & Bardai 2008). Notably, compliance to and disclosure of good governance practices have been considered to be very poor in Nigeria. This is partly due to managerial inefficiency associated with shady and sharp practices carried out by stewards which is in contention with shareholder's expectation. Conversely, our result suggests that on average, non-financial listed firms running on high free cash flow are tax conservatist who tend to comply as well as disclose required corporate governance information in their financial statement. The implication here is that tax conservatist firms show stronger corporate governance rules and regulations compliance and the attendant reporting of same during the period under investigation. The result goes beyond the traditional

evidences prominent in most similar studies. Thus, tax conservative non-financial listed firms will be required to run high free cash flow activities and simultaneously show ardent compliance toward corporate governance rules, regulations and codes of best practice in order to remain conservative. This is indeed a brighter insight into the subject of corporate governance as it relates to tax aggressiveness among listed non-financial firms in Nigeria.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This chapter provides the summary of the findings from the analyses carried out in the previous chapter. The conclusion was drawn from the findings, recommendations and contribution to knowledge and recommendations for further studies was made.

#### **5.2 Summary of Findings**

Particularly, it was observed that the outcome from the LSDV estimator revealed that:

1. The relationship between board independence and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under investigation.
2. The relationship between board size and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under investigation
3. The relationship between managerial ownership and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under investigation

4. The relationship between board gender diversity (5%) and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under investigation
5. The relationship between foreign ownership and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under investigation
6. The relationship between institutional ownership and tax aggressiveness is not significant for non-financial listed companies in Nigeria during the period under review
7. Agency cost has a positive significant (5%) moderating effect on the relationship between corporate governance compliance and tax aggressiveness of non-financial listed companies in Nigeria.
8. Agency cost has a positive significant (5%) moderating effect on the relationship between corporate governance disclosure and tax aggressiveness of non-financial listed companies in Nigeria

### **5.3 Conclusion**

In this study, the aim was to evaluate the moderating effect of agency cost on the relationship between corporate governance and tax aggressiveness of listed non-financial firms in Nigeria. The scope of this study covers a 10year period ranging from 2010 - 2019. The independent variables of interest that was employed in other to ascertain the possible moderating effect of agency cost on the relationship between corporate governance (Governance Compliance & Governance Disclosure) and tax aggressiveness include; board size, board independence, managerial ownership, board gender diversity, foreign ownership and institutional ownership. The study employed free cash flow as a measure of agency cost as the moderator and the variable of cash effective tax rate as a measure for tax aggressiveness which is in line with

related extant literature. Specifically, pre regression analysis which includes descriptive statistics, correlation matrix, and normality of residua analysis were conducted.

Basically, the Panel Ordinary Least Square Regression analysis was first conducted and diagnostic tests were carried out to check if it violates the basic Gauss Markov Theorem and assumptions as recommended by Woodridge, (2002). Post regression diagnostic test conducted in this study includes test for; multicollinearity, fixed effects and random effects. A critical examination of the diagnostic test revealed that the model should be controlled for fixed effects but no random effects. However, in order to control for the presence of fixed effect in the models, least square dummy variable regression analyses technique was employed, which is best suitable as it is known to cushion the fixed effects problems and allow for the independent variables in the model to exhibit their unique qualities/attributes following a minimised standard error computation technique. Hence, the study adopted Least Square Dummy Variable (LSDV) regression estimation technique which provided credible estimates reliable enough for interpretation as well as for policy recommendation.

#### **5.4 Recommendations**

In this study, it was observed with empirical evidence suitable environment where tax conservative firms can thrive. This study incorporates a peculiar measure of agency cost (free cash flow) as a moderating factor in a bid to examine its effect on the nexus between corporate governance and tax aggressiveness. Further, information on governance compliance and associated disclosure were obtained to enable the researcher gain further insight. According to agency perspective of tax, the problem that needs to be solved by investors is simply managerial shirking. Avoidance also considers another form of the agency problem: managerial opportunism or resource diversion. Desai and Dharmapala (2006) argued that complex tax aggressive

behaviors and practices can provide management with tools, masks, and justifications for opportunistic managerial behaviours, such as earnings manipulations, related party transactions, and other resource-diverting activities. In other words, tax aggressiveness and managerial diversion have been seen to be complementary. In line with our empirical evidence, a more gender diversified board was argued to function effectively in reducing tax aggressive policies in Nigeria. This will greatly run in favor of the government and tax authorities whose desires include higher tax revenue which are meant for economic development.

### **5.5 Contribution to Knowledge**

The study contributes to knowledge in the following ways:

The study explores the impact of corporate governance on tax aggressiveness and also with emphasis on the moderating role of agency cost. In doing this, the study closes gap on the paucity of literature on the subject matter.

The study introduced a moderating role of agency cost to examine its role on corporate governance compliance-tax aggressiveness nexus and corporate governance information disclosure-tax aggressiveness nexus which is unique to this particular study.

### **5.6 Suggestions for Further Studies**

The study made the following suggestions for further research:

- i. The study covers only corporate governance mechanism based on its defined scope. Future studies can consider variables related to the firm-specific attributes as there are indications that firm's attributes can influence tax strategies.
- ii. The study was limited to non-financial companies, which means that the findings may likely not hold in companies of the other sectors. Future studies can expand the scope to

cover the financial companies in order to enhance the generalisation potentials of the findings.

- iii. Other studies could use other variables to moderate corporate governance and tax aggressiveness in place of agency cost.
- iv. The sample and time period could be extended to cover a wider spectrum. As this study utilised the most recent time period.

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