Tax Aggressiveness and Sustainability of Listed Oil and Gas Firms in Nigeria: Does Firm Size Matter?

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Abstract
This study empirically investigated the relationship which exists between tax aggressiveness moderated by firm size and sustainability of oil and gas firms in Nigeria. In order to determine the relationship between tax aggressiveness and corporate sustainability, tax aggressiveness was measured using effective tax rate while corporate sustainability on the other hand was proxy using social-environmental performance. The formulated hypotheses to guide the investigation and the statistical test of parameter estimates was conducted using OLS regression model operated with STATA V.15. Ex Post Facto design was adopted and data for the study were obtained from the published annual reports and accounts of listed oil & gas firms on Nigerian Exchange Group (NGX) spanning from 2013-2021. The findings of the study generally indicate that tax aggressiveness has significant and positive relationship with sustainability of quoted firms in Nigeria at 1% significant level. In the same vein, it was noted that firm size moderates the relationship between tax aggressiveness and corporate sustainability at 5% level of significance. Thus, the study concludes that tax aggressiveness ensures sustainability of firms in Nigeria. The study however suggests the need for corporate organizations to engage the services of tax consultants to assist them to organize the firm's financial dealings in such a way that the firm suffers a minimum tax liability.

Keywords: *Tax Aggressiveness, Sustainability, Firm Size*

1.0 Introduction

Sustainability is seen as a strategy used by business organizations to maximize profits, diversify, product differentiation, as well as to globally evaluate the performance of companies in relation to their environment. However, the development of strategic thinking underscores the need to include activities aimed at integrating social and environmental concerns into the business decision-making process. Thus, companies that adequately integrate their environment and people are considered socially responsible (Nnamani, Onyekwelu & Ugwu, 2017).

Business development has social and environmental impacts leading to social problems, global warming, actual disasters and environmental pollution. As a result, many corporate organizations assume just as much responsibility for social and environmental concerns as for economic concerns. One reason is that corporations reflect growing social expectations and concerns of stakeholders. Taxes, on the other hand, are mandatory payments levied by the government on the profits of individuals and corporations. According to Uniamikogbo, Bennee and Adeusi (2019), tax aggressiveness is essential for management to minimize a company's tax burden. Tax aggressiveness is an attempt to use lawful barriers to avoid tax refunds or minimize tax payments. It is an attempt to use lawful barriers to avoid tax refunds or minimize tax payments.

However, when tax breaks are obtained through illegal means, actions protect the interests of investors and other stakeholders, and increase the credibility of financial reporting or procedures, this is considered fraud and is therefore considered a criminal offense. According to Kiabel and Nwikpasi (2001), tax aggressiveness is the planning and conduct of business activities within the framework of existing legislation in such a way that the company realizes the optimal or best tax position while achieving its stated goal. In other words, tax aggressiveness not only encompasses the strategies aimed at minimizing a company's tax liability, but also considers the cash flow consequences for the company when it is most beneficial for a corporation to pay its tax liability and avoid being surcharged. It is an act of transferring values from the state to corporations to promote corporate governance and increase shareholder wealth.

Hence, tax aggressiveness plays a very significant role in business organizations. From the a priori expectations, most studies on tax aggressiveness were limited to firm performance so also the studies on sustainability reporting were limited to financial performance in both developed and developing countries. Also, no empirical literature in developed and developing countries associated tax aggressiveness with corporate sustainability based on the available literature. The present study therefore examined the connection that exists between tax aggressiveness and sustainability of firms quoted under oil and gas sector of Nigerian Exchange Group (NGX). To achieve this purpose, the following hypotheses were formulated:

H_{01}: Tax aggressiveness has no significant relationship with sustainability of Oil and Gas Firms in Nigeria

H_{02}: Firm Size does not moderate the relationship between Tax Aggressiveness and Sustainability of Oil and Gas Firms in Nigeria

2.0 Review of Related Literature

2.1 Conceptual Frame work

2.1.1 Tax Aggressiveness

According to Aliani and Zarai (2013), business organizations identify the types of tax expenditures that are favorable when they minimize them within the framework of tax laws and use them to avoid paying excessive taxes for a period with the intention of increasing net profit. Reducing tax expense is commonly referred to as tax aggressiveness. Tax aggressiveness, also known as tax protection or tax planning, has been defined differently by scholars. Hoffman (1961) viewed it as the taxpayer's ability to organize his financial dealings in such a way that he suffers a minimum tax liability. Tax protection is generally defined as the process of managing one's affairs in order to defer, reduce or even eliminate the amount of taxes payable to the government (Pniowsky, 2010).

As noted in the study by Ogbeide and Obaretin (2018), aggressive tax management practices/behaviour reduces the tax revenue accruing to government. Fiscal aggressive activities are very important to achieve optimal financial performance of the company if all things being equal. Tax aggressiveness is often implemented through effective strategies. These strategies become effective when they allow companies to reduce tax costs and increase profits. Public company tax aggressiveness strategies take the form of allowable items that are deductible under tax laws. These are tax deductions that managers can use to reduce tax costs. The lower the tax expense, the higher the return on investment, expressed as profit for the period. Tax aggressiveness has its adverse effects. One of the adverse effects of tax aggressiveness is tax avoidance. This not only affects the company's image, but can also affect the investment resources of shareholders. The favorable economic effect of tax aggressiveness is the reduction in tax costs.

2.1.2 Organizational Sustainability

Sustainability report is a report that contains financial performance information and non-financial information that includes social and environmental activities that enable companies to grow sustainably (Clarissa & Rasmini, 2018). For company's sustainability to be continual, adequate attention should be paid to "3Ps" which are; profit, people and planet

According to Omaliko and Onyeogubalu (2021), to be sustainable, organizations must concede:

- Accountability for their environmental, social and economic impacts.
- Being transparent in its decisions and activities that affect its responsibilities.
- Responding to the interests of its stakeholders.
- Accepting that fact that rule of law is mandatory

As cited in Obiora, Omaliko and Okeke (2022), Omaliko, Nwadialor and Nweze (2020), Nigerian Code of Corporate Governance (2018) reports that proper attention to sustainability issues, including environmental, social, occupational and community health and safety ensures successful long-term business development and the company as this is what a responsible corporate citizen does towards contributing to economic development.

The following guidelines are recommended by NCCG 2018 in relation to organizational sustainability;

- report on the company's business principles, practices and efforts to achieve sustainability;
- report on the most environmentally friendly options, especially for companies operating in disadvantaged regions or in regions with sensitive ecology, to minimize the environmental impact of the company's operations;
- report on the nature and extent of employment equity and diversity (gender and other issues);
- report on the opportunities created for the physically disabled or disadvantaged;
- report on the company's environmental, social and governance policies and practices; etc.

The position of the Global Reporting Initiative (G4-LA1, LA9, G4-HR4, HR8 and G4-SO1) on social sustainability disclosure is as follows;

- report the total number and rate of employee hires during the reporting period, by age group, gender, and region.
- report education, training, counseling, prevention, and risk control programs that support employees, their families, or community members related to critical illness.
- report operations and suppliers where employees' rights to freedom of association or collective bargaining may be violated or may be subject to significant risk.
- report the total number of identified incidents of violations of indigenous peoples' rights during the reporting period.
- report the percentage of operations with implemented local community engagement , impact assessments and development programs.

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory was proposed by Jensen and Meckling in 1976. Agency theory has been widely used by empirical researchers to explain the relationship between environmental practices and firm performance. According to Jensen and Murphy (1990), the principal-agent theory can be used to justify the positive correlation between corporate tax aggressiveness and corporate sustainability. The link between sustainability practices and tax sheltering should provide an attractive incentive for companies to thrive, as tax breaks give the taxpayer the opportunity to organize their financial dealings in such a way that they suffer a minimum tax liability.

According to Desai and Dharmapala (2009), tax sheltering is a form of tax avoidance that integrates more aspects of agency conflicts between managers and investors. From the agency's tax point of view, management skirting is the main problem to be solved by investors. Management opportunism, or resource diversion, is another form of agency issues considered under avoidance. According to Jensen and Meckling (1976), managers who are agents of clients (shareholders) are hired to work to maximize returns for shareholders. Managers of organizations are agents of the shareholders. Therefore, to maximize shareholder wealth, they would need to reduce their operating expenses. One of these ways to reduce operating expenses is to use tax protection measures (aggressiveness) to reduce their tax liability. However, in order to reduce the tax burden on companies, tax sheltering must take place within the legal framework. The main reason managers of organizations engage in tax sheltering is because of the benefits they derive from an increase in after-tax income.

Similarly, agency theory and definitions of tax sheltering have clearly demonstrated that after-tax returns could be uninterestingly affected by tax minimization, while tax minimization could be viewed as tax-aggressive. Therefore, the study is anchored on this theory.

2.3 Empirical Review

Ogbeide and Obaretin (2018) examined corporate governance mechanisms and tax aggressiveness of listed firms in Nigeria. Eighty- five (85) quoted non- financial firms were selected and data were collected over the period 2012 to 2016. Inferential statistics consisting of General Method of Moment was used for the data analysis. This was after carrying out unit root test and other diagnostic tests respectively. The results obtained reveal that corporate governance mechanisms exert significant impact on tax aggressiveness in Nigeria. Specifically, ownership concentration and managerial ownership were positive and significantly impacts tax aggressiveness of listed non- financial firms in Nigeria whereas board size negatively and significantly impact tax aggressiveness over the reference period. Board gender diversity and board independence were significant and exert negative influence on tax aggressiveness of firms in Nigeria. The study recommended that there has to be a designed framework to efficiently and effectively monitor the interaction between corporate governance mechanisms and managers' rent extraction due to tax aggressive behaviour. This will drastically minimize the tendency for them to engage in rent seeking behaviour. Firms should create a tax department that should be regarded as profit centers that should be manned by tax experts / auditors who are deemed to be imbued with wide experience on tax strategies to minimize tax expense payment.

Nwaobia, Kwarbai, and Ogundajo (2016) examined the consequences of tax planning on the value of firms in Nigeria, using 50 firm-year observations for the period 2010-2014. They sourced data from the financials of the sampled companies and analyses involved both descriptive and inferential statistics within a specified panel regression framework. A significant joint effect on the firm value was observed for all tax planning variables considered. A positive and significant effect was observed for Effective tax rate (ETR), Firm age (FAG) and Dividend (DIV) while capital intensity and leverage were seen to have significant negative effect of firm value. They recommend an all-inclusive approach to tax planning to improve on firm value.

Uniamkogbo, Bennee and Adeusi (2019). investigated the effect of corporate governance on tax aggressiveness in Nigeria. Specifically, four variables; gender diversity, board size, CEO duality, and ownership structure were used as proxy for Corporate Governance while Effective Tax Rate was used to represent Tax aggressiveness in the Oil & Gas marketing firms in Nigeria. The population of study consists of all Oil & Gas marketing firms listed on the Nigerian Stock Exchange as at 31st December 2017.The entire population was adopted as the study sample using the census sampling approach. The secondary source of data collection method was used in generating data from the annual reports and accounts of the selected firms for the period 2013-2017. Data generated were analysed using descriptive statistics and Ordinary Least Square (OLS) regression. Findings from the study showed that a positive and significant relationship exists between gender diversity, board size and tax aggressiveness while a negative but significant relationship subsists between CEO duality and tax aggressiveness. Negative and insignificant relationship exists between ownership structure and tax aggressiveness in the Nigerian Oil & Gas marketing firms. We therefore recommend that audit committee of firms should be backed up with the obligation of appraising tax assessment and returns in order to avoid any form of illicit strategic tax behaviour by management. Also, Board of directors should clarify their responsibilities and provide recommendations to strengthen the control on the significant variables identified in this study analysis.

Lanis, McClure and Zirnsak (2017) analyse the tax aggressiveness of major alcohol and bottling companies operating in Australia. Included in the analysis are both Australian and foreign owned businesses. In total 13 companies were analysed and sample was broken up between profit or loss firms in consistency with the academic literature. Five companies were classified as loss, seven as profit and one as neither. Effective tax rates and book tax gaps were analysed with respect to the sample. Using the Australian Taxation Office (ATO) tax data, six corporations paid tax at, or near, the statutory rate of 30 per cent in the financial years 2013-2014 and 2014-2015, two paid at a rate lower than 20 per cent (Asahi Holdings and Lion), and the other five paid nothing. Taken together, the large alcohol companies in Australia are paying much less tax than would be expected if the 30 per cent corporate income tax rate applied. The analysis found that the wine industry made only small tax contributions to the Australian community over the two years.

Usman, Okaiwele and Asuquo (2020) examined the relationship between corporate tax planning, board compensation and firm value and moderating capacity on any association between tax planning and firm value. Consequently, the study used a sample of 71 profitable non-financial and non-oil and gas firms publicly listed on the Nigerian Stock Exchange (NSE) for financial years covering 2008 to 2015. Using the Generalised Least Square (GLS) regression, the result shows that there is a positive relationship between tax planning, board compensations and firm value, while board compensations failed to moderate the relationship between tax planning and firm value. Further, as regards the control variables, firm size showed a positive and significant impact on the firm value, while there was a significant negative relationship between leverage and firm value.

Nnamani, Onyekwelu and Ugwu (2017) evaluated the effect of sustainability accounting on the financial performance of listed manufacturing firms in Nigeria. Firms used for the study were

chosen from the Nigerian brewery sector. Data were sourced from the financial statements of three sampled firms. Data were analysed using the ordinary linear regression. The study reveals that sustainability reporting has positive and significant effect on financial performance of firms studied. Following the findings, the study recommends that firms in Nigeria should invest reasonable amount of their earnings on sustainability activities while specific accounting templates be articulated by professional accounting regulating bodies to guide firms' reportage on sustainability activities. The Financial Reporting Council of Nigeria (FRC) and others alike should make sustainability reporting compulsory while adequate sanctions are spelt out and enforced on defaulting organizations to serve as a deterrent.

Richardson, Wang and Zhang (2016) examine the influence exerted by ownership structure on corporate tax avoidance in selected listed Chinese private firms. Analyses using regression model reveal a significant non-linear relationship between ownership concentration and tax avoidance. At the base, increased ownership concentration was seen to exert a positive effect on tax planning as a result of entrenchment. Though voting right induced concentrated ownership beyond the minimum level needed for effective control exert negative influence on tax planning due to the alignment effect. Another notable finding was the significantly positive association observed between pyramidal ownership structure and tax planning as a result of the entrenchment effect.

3.0 Methodology

The present study adopted ex-post facto design. The use of ex-post facto design was based on the fact that our data is secondary in nature which has existed and cannot be manipulated. The population of the study consists of the entire 10 firms quoted under oil and gas sector of Nigerian Exchange Limited spanning from 2013-2021 according to their financial statements. Out of 10 firms that formed the population of the study, 6 firms were tax aggressive firms while the remaining 4 firms were tax conservative firms (*Mrs Oil Plc, Total Nig Plc, Rak Unity Pet Plc and Eterna Plc)* which were removed. Based on this, a total of 6 tax aggressive firms formed our sample size with 54 observations. These firms include (Ardova Plc, Capital Oil Plc, Japaul Gold and Ventures Plc, Conoil Plc, Oando Plc and Seplat Oil Plc).

3.1 Operationalization and Measurement of Variables

3.1.1 Dependent Variable

Organizational sustainability (OS) was measured using Kinder Lydenberg Domini (KLD) social-environmental performance (SEP) rating system and the content analysis method of data collection as used by Uwuigbe (2011), Omaliko and Okpala (2020), Omaliko, Nwadialor and Nweze (2020). For this purpose, a score of (1) was awarded if an item was reported; otherwise a score of (0) was awarded. Consequently, a firm could score a maximum of 20 points and a minimum of 0. The formula for calculating the reporting scores by using these 20 attributes is expressed in a functional form below:

20

RS = Σdi
i = 1

Where:
RS = Reporting Score
di = 1 if the item is reported and 0 if the item is not reported
i = 1, 2, 3.... 20.

3.1.1 Independent Variable

The independent variable in this study is tax aggressiveness and it was proxy and measured using effective tax rate. This is in harmony with the works of Ogbeide and Obaretin (2018).

3.2 Model Specification and Justification

In order to examine the relationship which exists between tax aggressiveness and corporate sustainability in Nigeria, the following models were designed for the study. This is shown below as thus:

$$SEP = \beta_0 + \beta_1 ETR + \varepsilon$$

Hence, the above model is re-designed as thus;

$$SEP = \beta_0 + \beta_1 ETR + \beta_2 FS + \beta_3 ETR*FS + \varepsilon$$

This study estimates the following equation to analyse the moderating role of firm size. In this study, firm size is taken as moderator. The researcher multiplies tax aggressiveness (*ETR*) and firm size (*proxy of Total Assets*) which is the multiplier and moderator for the study.

Where:
ETR = Effective Tax Rate
SEP = Social and Environmental Performance
FS = Firm Size
ε = error term

Decision Rule: accept Ho if P-value > 5% significant level otherwise reject Ho

4.0: Data Analysis and Results

Table 1: Descriptive Statistics

STATS	ETR	FS	SEP
Mean	3.25	2.65	2.45
Std. Dev.	.6697649	.6488634	5.57105
Maximum	29	3.4	6.01
Minimum	8	1.4	1.12
Observations	54	54	54

Source: Researcher's Computation (2022).

Table 1 shows that on the average, in a 9-year period (2013-2021), the listed oil and gas firms in Nigeria were characterized by positive social and environmental performance (SEP) value of 2.45. This is an indication that the selected firms in Nigeria have positive sustainability value with a standard deviation value of 5.57105.

The average effective tax rate (ETR) value for the sampled firms was 3.25 with a standard deviation value of .6697649. This means that firms with ETR values of 3.25 and above are more sustainable. There is also a high variation in maximum and minimum values of ETR which stood at 29 and 8 respectively. This wide variation in ETR values among the sampled firms justifies the need for this study as the researcher assumes that firms with higher ETR values are more sustainable than those firms with low ETR values.

Also an average value of 2.65 was recorded for firm size (moderator) with a standard deviation of .6488634. Thus implies that firms with FS value of 2.65 and above are more sustainable. There is also a high variation in maximum and minimum values of FS which stood at 3.4 and 1.4 respectively. This wide variation in FS values among the sampled firms justifies the need for this study as the researcher assumes that firms with higher FS values are more sustainable than those firms with low FS values.

4.1 Test of Hypotheses

Table 2: Result on the relationship between Tax Aggressiveness Moderated by Firm Size and Sustainability of Listed Oil and Gas Firms in Nigeria.

Source	SS	df	MS
Model	206.360322	3	68.7867740
Residual	1618.57911	50	32.3715822
Total	1824.93943	53	34.4328194

Statistic	Value
Number of obs	= 54
F (3, 50)	= 2.125
Prob > F	= 0.0100
R-squared	= 0.5643
Adj R-squared	= 0.5132
Root MSE	= 1.0653

SEP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
ETR	1.115653	.5189300	2.15	0.000	1.935208	4.166513
FS	.1744744	.0629040	2.77	0.005	3.112804	2.763855
ETR*FS	.6354262	.0968100	6.56	0.042	2.579913	1.309061
_cons	.3962235	.1942833	2.04	0.035	8.820688	8.028241

Source: Result output from STATA 15.

4.2: Discussion of Findings

The result of the analysis of the study using OLS Model is expressed as follows:

H_{01}: Tax aggressiveness has no significant relationship with sustainability of Oil and Gas firms in Nigeria

This hypothesis was tested and the result of the regression model as exposited on table 2 indicates that the relationship between tax aggressiveness and firms' sustainability is positive and significant with a P-value (significance) of 0.000 for the model which is less than the 1% level of significance adopted. Likewise the result of the positive coefficient shows that an increase in firms'tax aggressiveness while other variables are held constant increases firms sustainability 1.11%. We consequently rejected the null hypothesis and accepted the alternate hypothesis which contends that tax aggressiveness has significant relationship with sustainability of oil and gas firms in Nigeria.

H_{02}: Firm Size does not moderate the relationship between Tax Aggressiveness and Sustainability of Oil and Gas Firms in Nigeria

This hypothesis was tested and the result of the regression model as exposited on table 2 indicates that firm size moderates the relationship between tax aggressiveness and firms' sustainability. With a P-value (significance) of 0.042 for the model, the test was considered statistically significant. Also the result of the positive coefficient shows that an increase in firms'size while other variables are held constant ensures corporate tax aggressiveness which in-turn, increases firms sustainability by 63%. We consequently rejected null hypothesis and accepted alternate hypothesis which contends that firm size moderates the relationship between tax aggressiveness and sustainability of oil and gas firms in Nigeria.

Also, firm size when tested independently as a control variable indicates a positive and significant relationship with corporate sustainability. With a p-value of 0.005, the test is considered statistically significant at 1% level.

5.1 Conclusion and Recommendation

Based on the findings of the study, it was concluded that corporate tax aggressiveness moderated by firm size has significant and positive relationship with sustainability of listed oil and gas firms in Nigeria. The implication of this is that tax aggressive firms are more sustainable. Based on this, the study suggests the need for corporate organizations to engage the services of tax consultants to organize the firm's financial dealings in such a way that the firm suffers a minimum tax liability.

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S/N	SECTORS	QUOTED FIRMS IN NIGERIA	TOTAL COYS USED	% SAMPLE OF POPULATION (6)	TOTAL COYS EXCLUDED	% SAMPLE OF POPULATION EXCLUDED (4)	EFFECTIVE TAX RATE	REMARK
	OIL AND GAS							
1		Ardova Plc	1				**26**	**ETR ≤ 30%**
2		Capital Oil Plc	1				**15**	**ETR ≤ 30%**
3		Japaul Gold and Ventures Plc	1				**8**	**ETR ≤ 30%**
4		Conoil Plc	1				**24**	**ETR ≤ 30%**
5		Oando Plc	1				**27**	**ETR ≤ 30%**
6		Seplat Oil Plc	1				**29**	**ETR ≤ 30%**
7		Mrs Oil			1		**56**	**ETR > 30%**
8		Total Nig Plc			1		**45**	**ETR > 30%**
9		Rak Unity Pet Plc			1		**31**	**ETR > 30%**
10		Eternal Plc			1		**35**	**ETR > 30%**
		TOTAL NO OF COYS UNDER OIL & GAS SECTOR	**6**	**60%**	**4**	**40%**		

Appendix 1

The List of Companies Quoted under Oil and Gas Sectors of Nigerian Exchange Group (NGX)

Source: Extract from NGX Factbook & Author's Conception (2022).

Note: *Firms with **ETR > 30%** are considered as Tax Conservative Firms while firms with **ETR ≤ 30%** are considered as Tax Aggressive Firms which the present study concentrated on. Hence Tax Conservative Firms were excluded from the study.*