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Board Financial Expertise and Tax Avoidance of Listed Consumer Goods Firms in Nigeria

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ABSTRACT

The research examined the effect of board financial expertise on tax avoidance among publicly listed consumer goods companies in Nigeria. The specific objective was to investigate the degree to which directors' financial expertise affects effective tax rate. The study employed an ex-post facto research design and included a population of 21 listed consumer goods firms, from which a sample of 15 firms was selected. Data was collected from the annual reports of these firms covering the period from 2014 to 2023, providing a total of 10 years of data. Prior to hypothesis testing, the data underwent several preliminary diagnostic tests, including descriptive statistics, test for normality, heteroskedasticity, linearity, and autocorrelation. Following these checks, the Robust Least Squares method was applied to test the study's hypotheses. The finding revealed that Directors' financial expertise significantly and negatively affects tax avoidance of listed consumer goods firms in Nigeria ($\beta = -0.040738$; p-value = 0.0000). In conclusion, firms with directors possessing robust financial skills and knowledge tend to engage in less aggressive tax avoidance practices. Based on the significant negative effect of directors' financial expertise on tax avoidance, it is recommended that the boards of listed consumer goods firms in Nigeria actively prioritize the recruitment of directors with substantial financial expertise to ensure effective oversight and reduce the risk of tax avoidance behaviors, thus enhancing the firm's governance and tax compliance.

1.0 INTRODUCTION

The global business landscape has undergone significant transformations in recent decades, particularly in emerging economies like Nigeria (Osimen, 2024). In these countries, the corporate sector is characterized by an increasing demand for transparency, accountability, and responsible business practices. With growing concerns over revenue generation and equitable taxation, tax avoidance has become a critical issue for governments and regulatory bodies worldwide (Otusanya, Liu & Lauwo, 2023). In the case of Nigeria, a developing country with vast natural resources, the challenge of ensuring tax compliance while balancing corporate interests is even more pronounced. Tax avoidance—the legal reduction of tax liabilities through strategic planning—has long been a matter of concern, as it affects government revenue and can undermine the economic development of the country (Saminu, 2024). As tax avoidance strategies continue to evolve, the role of corporate governance mechanisms, specifically financial expertise on boards of directors, has become increasingly vital in shaping companies' tax behaviors.

In today's business environment, where corporations are expected to operate in a socially responsible and transparent manner, the relevance of effective financial expertise and tax compliance cannot be overstated (Salihu & Kawi, 2021). Financial expertise, particularly on corporate boards, is essential in ensuring that firms not only make sound financial decisions but also comply with regulatory tax requirements (Hsu, Moore & Neubaum, 2018). As businesses navigate an increasingly complex regulatory environment, particularly in Nigeria, the need for professionals who understand the intricacies of tax laws, financial reporting, and risk management has become paramount. Companies with knowledgeable financial experts on their boards are better equipped to devise effective tax strategies that align with both legal requirements and corporate objectives (Apriliyana & Suryarini, 2019).

Additionally, effective financial expertise helps prevent tax evasion or aggressive tax avoidance strategies that may lead to legal and reputational risks. In an era where corporate scandals related to tax avoidance and evasion are frequently reported in the media, the presence of financial expertise in decision-making roles provides an additional layer of accountability, ensuring that companies operate ethically and responsibly. Thus, the ability of boards to mitigate the risks of tax avoidance and ensure proper tax compliance hinges largely on the depth and breadth of financial expertise at the decision-making level. Financial expertise refers to the knowledge and skills required to understand and manage financial statements, budgets, and tax laws (Lanis, Richardson, Govendir & Pazmandy, 2021). Financially expert boards are equipped to make decisions that balance profit maximization with ethical considerations, including proper tax compliance. This is particularly important in the Nigerian context, where there is a growing push for better corporate governance practices to address the country's tax challenges.

The study of tax avoidance in corporate governance is not a new concept (Hasan, Anwar, Zahir-Ul-Hassan & Ahmed, 2024), but the focus on the effect of financial expertise in this area has gained prominence in recent years. Tax avoidance, as a corporate strategy, involves the use of legal means to minimize tax liability, often through practices such as profit shifting, transfer pricing, and deductions for various business expenses (Mosuin, Zakaria & Ason, 2024). While tax avoidance is not illegal, excessive or aggressive tax avoidance can be seen as unethical and detrimental to the national economy, as it reduces the tax revenue that governments depend on to finance essential services and infrastructure. In Nigeria, the government has identified tax avoidance as a major issue, particularly among large multinational corporations and domestic firms that operate in sectors like consumer goods, where profits are substantial. Financial expertise, which encompasses knowledge of financial reporting, accounting practices, and tax laws, plays a key role in determining the extent to which firms engage in tax avoidance strategies. Financial experts on boards of directors are crucial in ensuring that firms remain compliant with tax laws while also optimizing their tax positions. The presence of such expertise ensures that tax avoidance is approached with caution, balancing the desire for tax savings with the potential risks of legal scrutiny and reputational damage (Hsu, Moore & Neubaum, 2018).

Financial expertise directly impacts tax compliance in several ways. First, financial experts are skilled in understanding the complexities of tax laws, financial regulations, and accounting standards, allowing them to design tax strategies that are both legally compliant and efficient (Salihu & Kawi, 2021). In the absence of such expertise, firms may resort to risky tax avoidance techniques that could expose them to tax audits, penalties, or legal action. Furthermore, financial experts on boards are better equipped to oversee the financial reporting process and ensure that financial statements accurately reflect the company's tax obligations (Tanko, Waziri, & Yusuf, 2022). Accurate financial reporting, which includes proper documentation of income, expenses, and tax liabilities, is crucial in ensuring tax compliance. Financial experts can also play a critical role in identifying potential areas of tax avoidance and advising boards on how to address these issues proactively. In essence, the presence of financial expertise in a company's governance structure can act as a safeguard against excessive tax avoidance, promoting adherence to tax regulations and mitigating potential tax-related risks.

However, in reality, tax avoidance practices remain prevalent, with several firms engaging in aggressive tax strategies aimed at minimizing tax liabilities, sometimes at the expense of ethical considerations (Otusanya, Liu & Lauwo, 2023). While not necessarily illegal, these strategies often exploit loopholes in tax laws, creating opportunities for companies to significantly reduce their tax obligations through creative accounting, profit shifting, and transfer pricing. Despite the importance of tax compliance, many companies in Nigeria, particularly in the consumer goods sector, lack board members with the necessary financial expertise to navigate the complexities of tax laws. Consequently, these firms are unable to effectively manage their tax planning strategies or prevent the negative effects of excessive tax avoidance. This situation is further exacerbated by weak regulatory enforcement and an underdeveloped corporate governance culture, which hinders efforts to curb tax avoidance.

For the Nigerian economy, the widespread use of tax avoidance strategies undermines government revenue collection, which in turn affects public service delivery, infrastructure development, and economic growth. When large firms engage in tax avoidance, they reduce the amount of taxes paid to the government, depriving the nation of much-needed funds for development. Furthermore, tax avoidance practices erode public trust in corporate governance and foster a culture of non-compliance, encouraging other firms to adopt similar strategies. For the firms themselves, the failure to adequately address tax compliance and the over-reliance on tax avoidance techniques expose them to significant risks. These include legal penalties, reputational damage, and the potential for increased scrutiny from tax authorities. In the long term, companies that fail to invest in sound financial expertise may find themselves facing higher operational costs, lower shareholder confidence, and ultimately, decreased financial performance. Therefore, addressing the role of financial expertise in mitigating tax avoidance behaviors is critical for improving both corporate governance and national economic stability.

1.1 Objective of the study

The main objective of the study is to examine the effect of board financial expertise on tax avoidance of listed consumer goods firms in Nigeria. The specific objective was to ascertain the extent to which directors' financial expertise affects effective tax rate of listed consumer goods firms in Nigeria.

1.2 Hypothesis

H01: Directors' financial expertise does not significantly affect effective tax rate of listed consumer goods firms in Nigeria.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Board Financial Expertise

Board financial expertise refers to the knowledge and skills possessed by members of a corporate board related to financial matters, which enables them to make informed and effective decisions about the company's financial strategy, governance, and performance (Tanko, Waziri, & Yusuf, 2022). Financial expertise on the board typically includes a deep understanding of financial accounting, reporting standards, corporate finance, risk management, and relevant financial regulations. This expertise is crucial for guiding the company in managing its financial resources effectively, ensuring compliance with legal requirements, and formulating strategies that enhance the firm's long-term success. A board member with financial expertise is typically expected to possess a strong educational background in finance or accounting, substantial professional experience in financial decision-making, and a comprehensive understanding of the business environment in which the company operates (Salihu & Kawi, 2021).

The presence of financial expertise within the board is widely considered an essential element of good corporate governance, as it enables the board to provide high-quality oversight of the company's financial practices (Hsu, Moore & Neubaum, 2018). Such expertise allows board members to critically evaluate the company's financial reports, assess the accuracy and transparency of financial disclosures, and ensure that financial risks are properly managed. It also enhances the board's ability to monitor financial performance, evaluate investment opportunities, and ensure the company's adherence to sound financial principles. Beyond merely reviewing financial reports, board members with financial expertise are also better equipped to advise on complex financial matters, such as mergers and acquisitions, capital structure decisions, tax planning, and financial risk mitigation strategies (Tanko, Waziri, & Yusuf, 2022).

The significance of financial expertise on boards has been underscored by numerous studies that emphasize its role in improving corporate decision-making and reducing the likelihood of financial mismanagement (Salihu & Kawi, 2021). Companies with boards that possess strong financial knowledge are more likely to make strategic decisions that align with shareholder interests and enhance the firm's value. Financially literate boards can also better respond to financial crises, identify emerging risks, and take appropriate actions to protect the company's financial health. As the business landscape continues to evolve, the complexity of financial decision-making increases, making financial expertise a vital asset for corporate boards in both public and private organizations.

2.1.2 Tax Avoidance

Tax avoidance refers to the strategies and actions taken by individuals, corporations, or other entities to minimize their tax liabilities through legally permissible means (Saminu, 2024). It involves the use of methods and arrangements that take advantage of loopholes, ambiguities, or favorable provisions in tax laws to reduce the amount of tax owed without breaking the law. Unlike tax evasion, which is illegal and involves deliberately hiding or misrepresenting income to avoid tax payments, tax avoidance operates within the bounds of the law but often stretches the intent of the tax code (Sinebe & Anosike-Akude, 2024). Companies and individuals engaged in tax avoidance often employ techniques such as tax credits, deductions, tax deferrals, and transfer pricing, which enable them to reduce their taxable income or tax rate (Mosuin, Zakaria & Ason, 2024).

Tax avoidance can take various forms depending on the jurisdiction, the complexity of the tax laws, and the level of expertise of those involved. In the corporate context, it might involve the strategic allocation of profits across different tax jurisdictions to take advantage of lower tax rates or tax treaties between countries. This often involves using legal mechanisms such as offshore subsidiaries, tax shelters, or special purpose entities designed to reduce taxable income in high-tax countries (Sinebe & Anosike-Akude, 2024). In some cases, firms may engage in aggressive tax avoidance practices by exploiting tax loopholes that were not originally intended by the tax authorities, but are technically allowed by the existing legislation. These methods might include shifting profits to low-tax jurisdictions or utilizing complex accounting techniques to minimize taxable income.

The concept of tax avoidance is contentious because, while it is legal, it can lead to ethical concerns. Critics argue that widespread corporate tax avoidance deprives governments of revenue that is essential for funding public services, social programs, and infrastructure development (Otusanya, Liu & Lauwo, 2023). This has led to debates on whether tax avoidance practices undermine the principle of fairness in taxation, as they often benefit large corporations and wealthy individuals who have the resources and expertise to navigate complex tax codes. On the other hand, proponents of tax avoidance argue that it is a legitimate business strategy that allows firms to optimize their tax obligations, which can contribute to economic efficiency by encouraging investment, innovation, and economic growth (Saminu, 2024). In recent years, tax avoidance has garnered significant attention from both governments and the public, as many large multinational corporations have been accused of using sophisticated strategies to avoid paying taxes in countries where they operate (Mosuin, Zakaria & Ason, 2024). In response, several governments have introduced measures to curb aggressive tax avoidance, including implementing stricter transfer pricing rules, closing loopholes, and increasing international cooperation on tax matters. Despite these efforts, tax avoidance remains a prevalent issue in many countries, and companies continue to explore ways to minimize their tax burdens through legal means. The debate surrounding tax avoidance is likely to continue, as policymakers seek to balance the need for fair taxation with the desire to create a favorable environment for business growth. Tax avoidance in this study was measured using effective tax rate.

2.2 Theoretical Framework

Upper Echelon Theory was first proposed by Hambrick and Mason in 1984 (Perkins & Shortland, 2024). The theory emerged as a response to the growing recognition that the strategic choices and overall performance of organizations are influenced by the characteristics of top executives, including their background, experiences, values, and cognitive biases. Hambrick and Mason's work emphasized the role of top management in shaping organizational decisions, with particular attention to how their characteristics influence the firm's strategies and outcomes (Fitriasari & Soewarno, 2024). The theory was developed to explain how the individual attributes of top executives, such as their education, professional experiences, and personal values, affect corporate decision-making processes and, ultimately, organizational performance.

The main postulations of Upper Echelon Theory center on the idea that the experiences, values, and cognitive biases of top executives significantly influence the decisions they make, particularly in strategic areas such as resource allocation, innovation, and risk-taking (Perkins & Shortland, 2024). The theory argues that the decisions of top management are not solely based on objective, rational analysis of the firm's circumstances; instead, they are shaped by the personal characteristics of the executives (Fitriasari & Soewarno, 2024). These characteristics could include their educational background, professional experiences, social networks, and personal values. According to Upper Echelon Theory, these individual attributes not only affect the strategic direction of the firm but also shape its responses to external pressures, such as market conditions, regulations, and stakeholder expectations. Therefore, the decisions made by top executives are seen as a reflection of their characteristics and worldview. This perspective challenges the traditional assumption that organizational decision-making is entirely objective and rational, highlighting the role of top executives' personal factors in shaping corporate strategies and behaviors.

Upper Echelon Theory is particularly relevant to the study of financial expertise and tax avoidance in listed consumer goods firms because it emphasizes the influence of top management's characteristics, including their financial knowledge, on corporate decision-making. In the context of tax avoidance, the theory suggests that the financial expertise of the board members, particularly the CEO and other top executives, could significantly influence the company's approach to tax planning and compliance. Executives with strong financial backgrounds and expertise are likely to make more informed and strategic decisions regarding tax strategies, balancing the need for tax efficiency with the long-term sustainability of the firm. On the other hand, executives lacking financial expertise may be more prone to making decisions that expose the firm to higher risks, including aggressive tax avoidance strategies that could lead to legal and reputational consequences. Upper Echelon Theory, therefore, provides a useful framework for understanding how the financial expertise of top executives shapes their approach to corporate tax avoidance. It suggests that top executives' experiences, values, and knowledge will directly impact the company's tax decisions, which in turn can have significant implications for the firm's financial performance and its relationships with regulators and stakeholders.

2.3 Empirical Review

Salihu and Kawi (2021) investigated the role of board attributes in corporate tax avoidance in Malaysia. Their study, covering the period from 2009 to 2011, indicates that board members' financial literacy is positively related to corporate tax avoidance. This finding underscores the importance of financial expertise in guiding boards toward more aggressive tax strategies. Similarly, Hsu, Moore, and Neubaum (2018) highlight the role of financial experts on the board, specifically within Nasdaq-listed firms, from 2004 to 2012. Their regression analysis suggests that independent audit committee members with financial expertise are better able to monitor and assess their firm's tax avoidance activities.

Huang and Zhang (2020) explore the relationship between financial expertise and tax avoidance in U.S.-listed companies, particularly focusing on the financial background of CEOs. Their findings suggest that CEOs with financial expertise tend to adopt more aggressive tax avoidance policies. This result mirrors the findings of both Salihu and Kawi (2021) and Hsu, Moore, and Neubaum (2018), suggesting that financial expertise at the top of the corporate hierarchy—whether at the board or CEO level—can influence a company's approach to tax avoidance.

In contrast, Apriliyana and Suryarini (2019) provide a nuanced view of corporate governance in Indonesia. Their study emphasizes the importance of good corporate governance and corporate social responsibility (CSR) in mitigating tax avoidance. Using data from manufacturing companies listed on the Indonesia Stock Exchange, they find that the financial or accounting expertise of audit committee members negatively affects tax avoidance. This finding challenges the more general view that financial expertise always leads to more aggressive tax avoidance, instead highlighting the role of governance practices and CSR in tempering such behaviors.

Lanis, Richardson, Govendir, and Pazmandy (2021) examine the link between board expertise and corporate debt in the UK, finding a positive association between financially expert inside directors and higher corporate debt levels. While this study does not directly focus on tax avoidance, it underscores the broader influence of board expertise on financial decision-making, suggesting that financial expertise may affect other areas of corporate strategy beyond tax avoidance. This finding suggests that the role of board expertise extends across various corporate financial decisions, including tax planning.

Dang and Nguyen (2022) investigate the influence of audit committee characteristics on tax avoidance in Vietnam. Their study highlights the positive impact of audit committee size and the financial expertise of members on curbing tax avoidance behaviors. This result supports the findings of both Hsu, Moore, and Neubaum (2018) and Apriliyana and Suryarini (2019), particularly in the context of financial expertise. The findings from Dang and Nguyen add depth to the existing literature by emphasizing the

importance of audit committee dynamics, showing that the expertise of individual committee members can reduce aggressive tax avoidance.
Tanko, Waziri, and Yusuf (2022) focus on Nigerian oil and gas firms, revealing a positive and significant impact of board financial expertise on tax avoidance. Their findings align with those of Salihu and Kawi (2021), Hsu, Moore, and Neubaum (2018), and Huang and Zhang (2020), reinforcing the notion that financial expertise at the board level promotes more aggressive tax avoidance strategies. Similarly, Akhor and Inegbedion (2023) study Nigerian manufacturing firms, finding that board financial expertise is significantly related to the effective tax rate. This convergence across studies from different regions highlights the consistent role of board expertise in influencing tax avoidance practices.
Chen, Chang, and Lee (2020) explore the role of Chief Financial Officers' (CFOs) accounting expertise in tax avoidance, revealing a negative relationship between CFO accounting expertise and corporate effective tax rates. This finding contrasts with the general trend observed in most of the other studies, suggesting that while financial expertise at the board level often leads to more aggressive tax avoidance, CFO expertise may have the opposite effect.
Rimamsikwe and Sule (2022) further investigate the influence of board attributes on tax aggressiveness in Nigeria. Their study finds a positive significant relationship between board financial expertise and tax aggressiveness, reinforcing the conclusions of earlier studies. However, they also find that board diversity and age have a negative relationship with tax aggressiveness, indicating that other board characteristics may counterbalance the influence of financial expertise on tax strategies.
Dhiyaulhaq and Fadjarenie (2023) focus on the impact of directors' tax expertise, the tax consultant profession, and the frequency of board meetings on tax avoidance in Jakarta. Their findings emphasize the significance of directors' tax expertise, suggesting that directors with a background in taxation are better equipped to influence tax avoidance decisions. This study complements the work of other researchers by adding a layer of specificity regarding the type of expertise—tax expertise—as a key determinant of tax avoidance.
Martinez, da Silva, and Sarlo (2023) examine corporate governance and implicit taxes in Brazil, revealing that financial expertise and board independence are positively associated with tax avoidance at low levels, but have a negative relationship at higher levels of tax avoidance. This study adds complexity to the existing body of knowledge by suggesting that the relationship between board expertise and tax avoidance is not linear, but contingent upon the level of tax avoidance.
Yahaya, Abdulkadir, and Lawal (2023) explore the relationship between corporate governance mechanisms and tax avoidance among Nigerian deposit money banks. Their study reveals a significant positive effect of board financial expertise on tax avoidance, further aligning with the broader trend observed across multiple studies.

2.4 Gap in Literature

There exists an extensive research on the relationship between board financial expertise and tax avoidance. However, the studies have methodological limitations that hinder a more robust understanding of this dynamic, particularly in the context of Nigerian consumer goods companies. Many of the studies, such as those by Salihu and Kawi (2021), Hsu, Moore, and Neubaum (2018), and Tanko, Waziri, and Yusuf (2022), have employed standard regression models, often assuming linearity and normality in the data. However, these assumptions are not always valid, and failure to test for or address non-linearity and non-normality can lead to biased or unreliable results. For instance, studies like those by Apriliyana and Suryarini (2019) and Dang and Nguyen (2022) have overlooked the potential impact of these issues, which can distort the true relationship between board expertise and tax avoidance. Furthermore, while panel data methods have been widely used, few studies have tested for the presence of non-normality or explicitly examined whether the relationship between board financial expertise and tax avoidance is linear.
In contrast, the present study addresses these methodological gaps by incorporating a more rigorous approach. Specifically, it conducts tests for normality, heteroskedasticity, linearity, and autocorrelation, and then applies the Robust Least Squares (RLS) regression method. The use of RLS regression is particularly important as it mitigates the issues arising from non-normality and heteroskedasticity, providing more reliable and robust estimates of the relationship between board financial expertise and tax avoidance. This methodological improvement offers a more accurate assessment of how financial expertise influences tax avoidance, especially when the assumptions of traditional regression methods are not met. By addressing these key methodological concerns, the current study contributes to a more precise understanding of board financial expertise's role in shaping tax practices among Nigerian consumer goods firms.

3.0 METHODOLOGY

This study employs an ex post facto research design, utilizing secondary data sourced from the financial statements of selected listed consumer goods firms in Nigeria for the period from 2014 to 2023. The ex post facto design is suitable for this study as it allows for examining the impact of board financial expertise on tax avoidance without manipulating any variables, relying on pre-existing data (Nworie, Okafor & John-Akamelu, 2023). Secondary data were collected from the annual financial reports of the selected firms, which are publicly available through the Nigerian Exchange Group (NGX) and individual company websites. This data includes financial information such as tax expense, earnings before tax, and details regarding the composition of the boards, specifically focusing on directors' financial expertise.

The population for this study comprises the 21 listed consumer goods firms on the Nigerian Exchange Group (NGX) as of December 31, 2023. A purposive sampling technique was employed to select 15 firms out of the 21, based on the availability of complete data for the study period. The selected firms include:

1. Cadbury Nigeria Plc
2. Champion Breweries Plc
3. Dangote Sugar Refinery Plc
4. Flour Mills Nigeria Plc
5. Guinness Nigeria Plc
6. Honeywell Flour Mills Plc
7. International Breweries Plc
8. Northern Nigeria Flour Mills Plc
9. Nascon Allied Industries Plc
10. Nestle Nigeria Plc
11. Nigerian Breweries Plc
12. Nigerian Enamelware Plc
13. PZ Cussons Nigeria Plc
14. Unilever Nigeria Plc
15. Vitafoam Nigeria Plc

The main variables in this study are directors’ financial expertise and tax avoidance. Directors' financial expertise is measured by the proportion of board members with professional qualifications in accounting, finance, or economics. Tax avoidance is measured using the effective tax rate (ETR). The operationalization of the variables is outlined as follows:

Table 3.1: Measurement of Variables

Variable	Measurement	Source
Effective Tax Rate (ETR)	Tax expense / Earnings Before Tax	Malik & Munir, 2024
Board Financial Expertise	(Number of directors with financial expertise) / (Total number of directors)	Ogundeji, 2020

Data analysis will involve various statistical techniques to test the hypotheses and validate the research model. Descriptive Statistics was used to summarize the central tendencies, variability, and distribution of the data. For the purpose of testing the hypothesis, Robust Least Squares Regression was used to estimate the regression model, as the residuals are not assumed to follow a normal distribution. The decision rule for hypothesis testing will be based on the p-value of the test statistic. If the p-value is less than the significance level of 0.05, the null hypothesis will be rejected, indicating a significant effect of board financial expertise on tax avoidance. Conversely, if the p-value is greater than 0.05, the null hypothesis will not be rejected, implying no significant effect.
This study adapts the model proposed by Yahaya, Abdulkadir, and Lawal (2023) to explore corporate governance mechanisms and their impact on tax avoidance. The model is modified to incorporate board financial expertise as a predictor of tax avoidance in listed consumer goods firms in Nigeria.
The base regression model used for analysis is:

$ETRit = \beta 0 + \beta 1FINEXit + \mu it$ ________________________________eqi
Where:
ETRit = Effective Tax Rate of firm iii in period ttt
FINEXit = Financial expertise of the board of firm iii in period ttt
$\beta 0$ = Constant
$\beta 1$ = Coefficient
μit = Error term

4.0 DATA ANALYSIS
4.1 Descriptive Analysis
Table 4.1 Descriptive Analysis

	EFTR	FINEXP
Mean	0.570306	0.519149
Median	0.305287	0.454545
Maximum	41.08395	1.000000

Minimum	-4.715152	0.266667
Std. Dev.	3.439883	0.166220
Skewness	11.06830	1.191880
Kurtosis	130.2739	4.011526
Jarque-Bera	104304.3	41.90937
Probability	0.000000	0.000000
Sum	85.54590	77.87235
Sum Sq. Dev.	1763.087	4.116716
Observations	150	150

Source: Analysis Output Using Eviews 10 (2024)

In Table 4.1, the descriptive statistics for EFTR show a mean value of 0.5703, suggesting that, on average, the effective tax rate for the listed consumer goods firms in Nigeria is approximately 57%. This indicates a moderate level of tax expense relative to income across the firms in the sample. The maximum value of 41.08 suggests that some firms have significantly higher tax rates, potentially due to aggressive tax practices or varying levels of profitability. The minimum value of -4.715 suggests that some firms have negative effective tax rates, which may indicate the use of tax avoidance strategies that result in tax credits or refunds. The standard deviation of 3.44 indicates a considerable level of variation in the effective tax rates across the firms. The high skewness of 11.068, coupled with a kurtosis of 130.273, shows that the distribution of the EFTR variable is heavily skewed to the right, meaning most firms have lower effective tax rates, with a few firms having very high values. The Jarque-Bera test statistic of 104304.3, with a probability of 0.000, confirms that the data does not follow a normal distribution, which is consistent with the observed skewness and kurtosis.

For the financial expertise variable (FINEXP), the mean value is 0.5191, indicating that, on average, about 52% of the board members across the firms in the sample possess financial expertise. This suggests a moderate level of financial expertise within the boards of the firms. The maximum value of 1.000 implies that some firms have boards where all members possess financial expertise, while the minimum value of 0.2667 indicates that in some firms, only about 27% of the board members have financial expertise. The standard deviation of 0.1662 shows that the proportion of financial expertise across firms varies moderately. The skewness of 1.1918 indicates a slight rightward skew, suggesting that most firms have a relatively low to moderate percentage of board members with financial expertise, but with some firms having higher concentrations. The kurtosis value of 4.0115 suggests a distribution that is slightly leptokurtic, meaning the data has a sharper peak than a normal distribution. The Jarque-Bera test statistic of 41.9093, with a probability of 0.000, also indicates that the data is not normally distributed.

4.2 Model Diagnostic

Model diagnostic tests are essential for validating the assumptions underlying the regression model. The Breusch-Godfrey test ensures no serial correlation, the Breusch-Pagan-Godfrey test confirms homoskedasticity, the Ramsey RESET test verifies model specification, and the Jarque-Bera test checks for normality of residuals. Together, they confirm the robustness of the model and the reliability of the results.

Table 4.2 Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.013970	Prob. F(2,146)	0.9861
Obs*R-squared	0.028700	Prob. Chi-Square(2)	0.9858

Source: Analysis Output Using Eviews 10 (2024)

In Table 4.2, the Breusch-Godfrey Serial Correlation LM Test with a probability of 0.9861 is used to check for autocorrelation in the residuals of the regression model. The essence of this test is to determine whether the error terms from the model are correlated across different time periods or observations (Nworie & Onochie, 2024). Autocorrelation can violate the assumption of independence in regression models, leading to biased and inefficient estimates. As shown above, the high probability value indicates that there is no significant serial correlation, meaning the model's residuals are independent of one another, and this ensures the validity of the results.

Table 4.3 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.070546	Prob. F(1,148)	0.7909
Obs*R-squared	0.071465	Prob. Chi-Square(1)	0.7892
Scaled explained SS	4.500818	Prob. Chi-Square(1)	0.0339

Source: Analysis Output Using Eviews 10 (2024)

Table 4.3 provides the Heteroskedasticity Test: Breusch-Pagan-Godfrey, with a probability of 0.7909. This test is used to detect whether the variance of the residuals is constant across all levels of the independent variables (Anaike, Nworie & Ochuka, 2024). If heteroskedasticity is present, it can lead to inefficient estimates and invalid statistical inference (such as biased standard errors). The high probability value of 0.7909 indicates that there is no significant heteroskedasticity, suggesting that the variance of the residuals remains constant, and the estimates from the model are reliable.

Table 4.4 Ramsey RESET Test

Equation: UNTITLED

Specification: EFTR FINEXP C

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.389598	147	0.6974
F-statistic	0.151787	(1, 147)	0.6974
Likelihood ratio	0.154805	1	0.6940

Source: Analysis Output Using Eviews 10 (2024)

Table 4.4 presents the Ramsey RESET Test with a probability of 0.6974, which is used to test for the correct specification of the functional form of the model. The essence of this test is to ensure that the model includes all relevant variables and that the relationship between the dependent and independent variables is correctly modeled (Nworie & Onochie, 2024). Model misspecification can lead to biased estimates and incorrect conclusions. The probability value of 0.6974 is higher than the significance level of 0.05, suggesting that there is no evidence of misspecification in the model. This means the model is well-specified and that the variables chosen appropriately capture the relationships being studied.

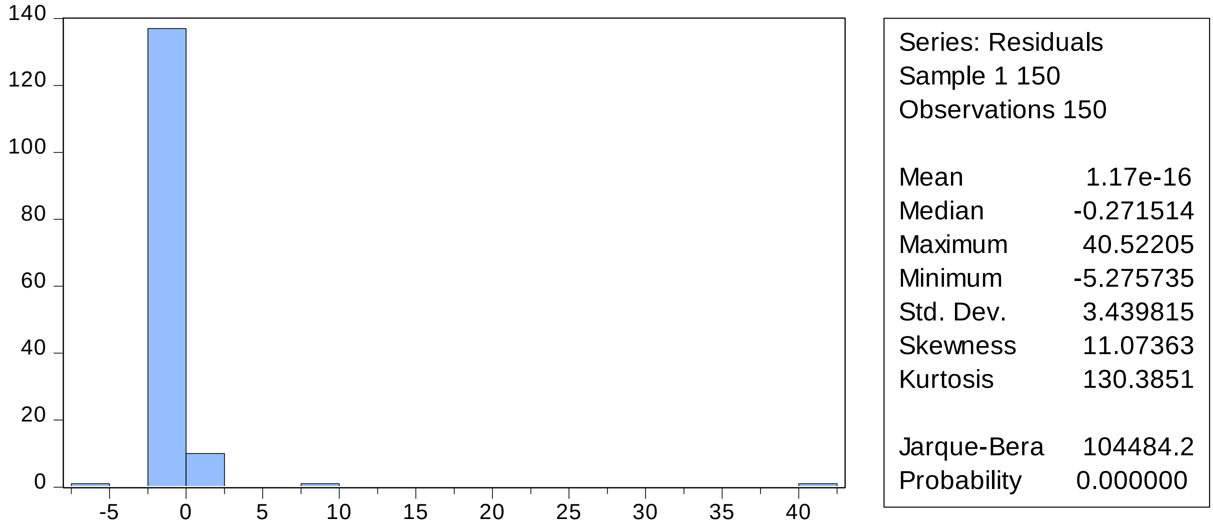

Figure 1 Normality Test

Source: Analysis Output Using Eviews 10 (2024)

Figure 1 presents the Jarque-Bera Test for Normality, with a probability value of 0.0000. This test is used to assess whether the residuals of the regression model follow a normal distribution, which is an assumption in many parametric tests, including OLS regression. Non-normality in the residuals can affect the efficiency and reliability of the coefficient estimates. The result of 0.0000 indicates that the residuals are significantly non-normally distributed. Thus, we adopted robust least square technique in the test of hypothesis in order to take care of the non-normality of the residuals. .

4.2 Test of Hypothesis

H01: Directors' financial expertise does not significantly affect effective tax rate of listed consumer goods firms in Nigeria.

Table 4.5 Test of Hypothesis

Dependent Variable: EFTR
Method: Robust Least Squares
Date: 12/28/24 Time: 05:27
Sample: 1 150
Included observations: 150
Method: M-estimation
M settings: weight=Fair, tuning=1.4, scale=MAD (median centered)
Huber Type I Standard Errors & Covariance

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FINEXP	-0.040738	0.006128	-6.647595	0.0000
C	0.317093	0.003339	94.95246	0.0000
	Robust Statistics			
Rw-squared	0.000404	Adjust Rw-squared		0.000404
Scale	0.116181	Rn-squared statistic		44.19051
Prob(Rn-squared stat.)	0.000000			

Source: Analysis Output Using Eviews 10 (2024)

Table 4.5 shows the result of the test of hypothesis examining the effect of directors' financial expertise on the effective tax rate (EFTR) of listed consumer goods firms in Nigeria. The Rw-squared value is 0.000404, and the Prob(Rn-squared stat.) value is 0.000000. Rw-squared is a measure of how well the independent variables in the model explain the variation in the dependent variable (EFTR). The Rw-squared value of 0.000404 suggests that the model explains an extremely small portion of the variation in the effective tax rate. However, the extremely low Rw-squared does not necessarily undermine the validity of the model, as it could indicate that financial expertise is a small but significant factor in determining tax behavior within firms, and other factors not captured by the model may influence the EFTR.

The Prob(Rn-squared stat.) value of 0.000000 is highly significant (p-value < 0.05), suggesting that the model is valid and that the independent variable(s) included are significantly associated with the dependent variable (EFTR). This result suggests the model is robust and provides a reliable foundation for drawing conclusions.

The coefficient for FINEXP is -0.040738, with a p-value of 0.0000. This coefficient represents the marginal effect of directors' financial expertise on the effective tax rate (EFTR). A negative coefficient means that an increase in financial expertise among the board of directors is associated with a decrease in the EFTR. Specifically, for each one-unit increase in the financial expertise (on the defined scale), the effective tax rate (EFTR) is expected to decrease by 0.040738 units, holding all other factors constant.

The p-value of 0.0000 is highly significant (p-value < 0.05), indicating that the effect of financial expertise on the effective tax rate is statistically significant. In other words, the result provides strong evidence against the null hypothesis (H01). Thus, we reject H01 and conclude that Directors' financial expertise significantly and negatively affects tax avoidance of listed consumer goods firms in Nigeria (β = -0.040738; p-value = 0.0000).

4.3 Discussion of Findings

The study's finding that directors' financial expertise significantly and negatively affects tax avoidance among listed consumer goods firms in Nigeria (β = -0.040738; p-value = 0.0000) suggests that boards with directors who possess financial expertise tend to adopt more transparent and compliant tax strategies, potentially due to their better understanding of tax regulations and risks. Financially expert directors are likely more focused on ensuring the company adheres to legal standards and avoids aggressive tax avoidance strategies that could attract regulatory scrutiny or damage the company's reputation. This negative relationship could also be driven by a preference for long-term corporate stability and a cautious approach to tax planning, where financial expertise is used to strike a balance between minimizing tax liabilities and avoiding aggressive tactics that could lead to future legal or financial risks. In contrast to studies that suggest a positive link between financial expertise and aggressive tax avoidance, the negative effect observed in this study may be attributable to the unique corporate governance environment in Nigeria's consumer goods sector, where regulatory compliance and social responsibility are becoming increasingly important. Financial experts on the board might prioritize adhering to tax laws and maintaining a strong corporate image, rather than exploiting loopholes. Several studies support this idea, such as Apriliyana and Suryarini (2019), who found that financial expertise in audit committees negatively affected tax avoidance, emphasizing the moderating role of governance practices. Similarly, Dang and Nguyen (2022) observed that financial expertise in audit committees led to reduced tax avoidance behaviors, aligning with the idea that financial experts can curb aggressive tax strategies. Conversely, Salihu and Kawi (2021) found that financial literacy of board members in Malaysia was positively related to tax avoidance, arguing that financial experts may encourage tax strategies that reduce corporate tax liabilities. Additionally, Tanko, Waziri, and Yusuf (2022) found a positive relationship between board financial expertise and tax avoidance in Nigerian oil and gas firms, suggesting that the influence of financial expertise on tax avoidance may vary depending on industry context. This divergence in findings could be attributed to differences in the type of expertise involved, the regulatory environment, and the corporate culture in different sectors.

5.0 CONCLUSION AND RECOMMENDATION

The significant negative effect of directors' financial expertise on tax avoidance in listed consumer goods firms in Nigeria implies that firms with directors possessing robust financial skills and knowledge are likely to engage in less aggressive tax avoidance practices. This suggests that financial experts can effectively oversee and influence the corporate tax strategy of their firms, promoting compliance with tax regulations and reducing the risk of unethical tax avoidance behavior. Such expertise likely enhances the board's ability to make informed decisions on complex tax issues, ensuring that firms align their tax planning with legal and regulatory requirements. Also, the negative relationship between financial expertise and tax avoidance emphasizes the role of skilled boards in fostering transparency and accountability within firms. By reducing tax avoidance, firms may also mitigate the risk of reputational damage, regulatory penalties, or financial scrutiny from stakeholders. This could ultimately lead to enhanced trust and long-term stability for these companies. For regulators and stakeholders, this finding highlights the value of promoting and prioritizing the appointment of financial experts in the governance structures of firms. A focus on recruiting highly skilled directors could therefore contribute not only to compliance with tax regulations but also to broader goals of corporate sustainability in the Nigerian market.

Based on the significant negative effect of directors' financial expertise on tax avoidance, it is recommended that the boards of listed consumer goods firms in Nigeria actively prioritize the recruitment of directors with substantial financial expertise to ensure effective oversight and reduce the risk of tax avoidance behaviors, thus enhancing the firm's governance and tax compliance.

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