Board of Directors' Political Connection and Tax Aggressiveness among Listed Companies in Nigeria

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Abstract

This study investigates the impact of Board of Directors Political Connections (BDPC) on tax aggressiveness among 29 consumer and industrial goods companies listed in the Nigerian Exchange Group (NGX) from 2019–2024. Two econometric models were employed to measure tax aggressiveness: Model 1 utilized the Effective Tax Rate (ETR) under a Panel Random Effects regression. In contrast, Model 2 adopted Book-Tax Differences (BTD) within a Panel Fixed Effects framework. Both models incorporated BDPC as the primary independent variable, alongside control variables, including Operating Cash Flow Ratio (OCFR), Debt-to-Asset Ratio (DAR), Firm Size (FS), and Board Independence (BI). The results from both models revealed that BDPC does not statistically impact tax aggressiveness. The R-squared values exceeded 60% in both models, indicating moderate explanatory power, yet the overall models lacked statistical significance as reflected in their F-statistics. These findings suggest that political affiliations at the board level, as well as conventional governance and financial metrics, are not reliable predictors of tax aggressiveness in the Nigerian context. Instead, the study underscores the possible influence of unobserved firm-specific characteristics, institutional quality, and broader systemic factors. Consequently, policy efforts aimed at curbing aggressive tax practices in Nigeria should prioritize institutional reforms, regulatory enforcement, and tax transparency, rather than focusing solely on-board composition or political ties.

Keywords: Political Connections, Tax Aggressiveness, Corporate Governance.

1.0 Introduction

Tax aggressiveness has become an increasingly prominent corporate strategy. Firms are adopting various methods to minimize their tax obligations through interpretations of tax laws that, although legally permissible, often challenge the spirit of those laws (Desai et al., 2017). Such strategies are particularly appealing in environments where regulatory ambiguities persist, as is the case in many emerging economies, including Nigeria. While these approaches can enhance short-term financial performance, they also raise significant ethical concerns and attract scrutiny from regulators, stakeholders, and the public. In Nigeria, where the regulatory landscape is still evolving and institutional oversight is often inconsistent, the use of aggressive tax strategies is not only more prevalent but also more difficult to detect and regulate effectively (Ajide, 2016).

Corporate governance mechanisms are intended to align managerial decisions with shareholder interests and societal expectations. However, gaps in governance structures, especially those related to board oversight, can create opportunities for firms to engage in aggressive tax planning. One critical factor influencing governance outcomes in this area is the political connection of board members. Political connections, defined as affiliations or relationships between board members and political actors or institutions, provide firms with strategic advantages such as preferential access to regulators, information asymmetries, and favorable policy interpretations (Bassey & Ighorodje, 2019). In Nigeria, where the intersection between politics and business is particularly pronounced, these connections are often deliberately cultivated and institutionalized. As a result, politically connected firms may be more inclined to exploit regulatory discretion and adopt tax planning practices that border on avoidance, with minimal risk of enforcement or reputational damage (Mghabghab, 2015).

Empirical research from developed countries has demonstrated that political connections significantly influence corporate tax behavior. Studies from the United States (Kim & Zhang, 2016), United Kingdom (Huseynov & Klamm, 2019), Germany (Braithwaite & Wenzel, 2022), and Australia (Taylor & Richardson, 2020) have all found that firms with politically connected directors are more likely to engage in aggressive tax planning. However, this area remains underexplored in the Nigerian context, where the forms and consequences of political affiliations may differ substantially due to institutional, legal, and governance peculiarities. While a few Nigerian studies have examined the role of ownership structures or general governance quality in tax compliance (Efenana & Egbunike, 2023), comprehensive evaluations of board-level political influence are still limited. Furthermore, much of the existing literature treats political connections as a uniform construct, failing to capture the diversity of political affiliations such as ties to ruling parties, former government service, or campaign involvement, which may have varying effects on corporate behavior (Ahmad et al., 2024).

The issue is further compounded by the limited integration of ethical considerations and broader governance attributes, such as board independence, into existing models of tax planning in Nigeria. Independent directors may serve as a moderating force against politically driven tax aggressiveness, but empirical assessments of this interaction are lacking (Ibeh & Okoro, 2020). As Nigeria continues to grapple with revenue shortfalls and seeks to enhance tax compliance, understanding the role of political influence in corporate tax strategies becomes both timely and essential. Firms that exploit political connections for tax advantages not only distort the competitive landscape but also undermine public trust and fiscal equity (Ogunleye et al., 2021). In light of these concerns, this study investigates the impact of political connections within the boardroom on tax aggressiveness in quoted Nigerian companies. It explicitly evaluates whether the presence of politically affiliated directors is associated with more aggressive tax behaviors and how firm-level financial and governance attributes interact with such connections. The study is motivated by the need to fill notable gaps in the literature, particularly within the Nigerian context, where political affiliations are pervasive yet rarely analyzed through the lens of tax strategy. Drawing from the political economy theory, the research formulates a testable hypothesis to guide empirical analysis. By testing this hypothesis, the study contributes to academic discourse while offering insights that are relevant for policymakers, regulators, and corporate stakeholders committed to promoting transparency and accountability in tax governance. Also, it signals to policymakers and stakeholders that efforts to reduce tax aggressiveness must go beyond corporate board structures and address deeper institutional and regulatory challenges within the tax system.

2.0 Literature Review

2.1 Tax Aggressiveness

Tax aggressiveness represents a firm's strategic approach to minimizing tax liabilities by exploiting ambiguities and gaps in tax legislation, reflecting a willingness to engage in risk-laden tax planning that stretches the conventional boundaries of tax compliance. Typically measured through indicators such as the effective tax rate gap, book-tax differences, and the frequency of using tax shelters, tax aggressiveness serves as a critical proxy for assessing how far a firm deviate from standard tax practices (Chen et al., 2020). Firms employing aggressive tax planning often manipulate reported earnings and tax liabilities by shifting profits to jurisdictions with lower tax rates. This is achieved through methods such as establishing offshore subsidiaries, adjusting transfer pricing, and designing hybrid financial instruments that enable income reallocation across borders (Lee & Kim, 2021). By strategically timing the recognition of income and leveraging disparities between domestic and international tax rules, companies can substantially reduce their current tax burdens while potentially enhancing future cash flows.

Recent empirical research has focused on refining the measurement of tax aggressiveness by developing quantitative proxies that capture both the scale and intensity of these avoidance strategies. For example, the effective tax rate gap which measures the difference between a firm's statutory tax rate and its actual effective tax rate provides insight into the degree of tax planning activity and indicates the extent to which reported tax liabilities differ from expected statutory obligations (Brown & Davis, 2019). Similarly, discrepancies between accounting income and taxable income, often referred to as book-tax differences; reveal the operational impact of aggressive tax planning by highlighting deviations in financial reporting practices. Such measures facilitate comparisons among firms and allow for the monitoring of changes in tax planning behavior as regulatory environments evolve.

Beyond these quantitative metrics, firms adopt a variety of sophisticated techniques to engage in aggressive tax planning. In addition to the well-documented use of offshore entities and transfer pricing manipulation, companies increasingly exploit hybrid arrangements and intra-group transactions to optimize their tax positions. These strategies enable the deferral of tax liabilities or the reallocation of income to jurisdictions where tax rules are more favorable. While these methods can lead to significant tax savings and enhanced after-tax performance, they also expose firms to higher regulatory scrutiny and the risk of reputational damage if perceived as excessively aggressive. The evolving global tax landscape with its intensifying international cooperation and stricter enforcement requires firms to continuously adapt their strategies, balancing the potential benefits of tax minimization against the inherent risks of non-compliance (Lee & Kim, 2021).

In light of these complexities, understanding tax aggressiveness is not solely a matter of financial engineering but also a critical component of corporate risk management and long-term strategic planning.

As tax policies and enforcement mechanisms continue to evolve, ongoing research is essential for elucidating the broader economic and governance implications of aggressive tax strategies. Such inquiry provides valuable insights into how firms navigate regulatory constraints while striving to maximize shareholder value, and it underscores the need for policymakers to consider the trade-offs between tax competitiveness and compliance in an increasingly interconnected global economy (Chen et al., 2020).

2.2 Board of Directors' Political Connections and Tax Aggressiveness

Politically connected firms possess distinctive attributes that enable them to navigate regulatory environments and influence tax policy outcomes. In the Nigerian context, political connections are identified through board members' affiliations with political institutions—such as holding public office, membership in dominant political parties, or involvement in political campaigns. These connections, typically captured using binary (dummy) variables coded as 1 (presence) or 0 (absence), serve as reliable indicators of a firm's embeddedness in political networks (Dewi & Yasa, 2020). Such affiliations may offer firms preferential access to policymakers, increased regulatory leniency, and informal influence over tax authorities. Empirical evidence suggests that boards with political ties are more likely to engage in aggressive tax planning. For instance, Chen et al. (2021) and Ibrahim and Bello (2020) show that politically connected directors often promote strategies that exploit regulatory gaps to minimize tax liabilities. In Nigeria, where institutional frameworks may be weak and political patronage pervasive, these connections offer firms an avenue to reduce effective tax rates with reduced risk of regulatory repercussions. Akintola et al. (2023) highlight how such firms may receive favorable outcomes during tax audits due to their influence, thereby enabling more aggressive tax behavior.

This phenomenon aligns with both the political economy and the resource dependence theories. The relevance of Political Economy Theory is underscored by the observation that politically connected companies often gain access to favorable tax treatments, and regulatory leniency, or exploit loopholes in the tax system. These firms leverage their political ties to secure advantages that may not be available to their less-connected competitors. For instance, it has been observed that companies with strong political affiliations are better positioned to influence tax policies and secure exemptions or reductions that directly impact their bottom line (Lee, 2019). In this context, the theory illuminates the pathways through which political lobbying can shape tax policies, particularly in environments where governance structures may allow for significant discretionary power. Such dynamics are evident in the Nigerian corporate landscape, where the interaction between political connections and fiscal policy has profound implications for economic equity and regulatory compliance. On the other hand, according to the resource dependence theory, politically connected boards enhance firms' access to scarce or valuable external resources such as insider knowledge of tax policy and enforcement trends (Ojo & Adebayo, 2020). These advantages may embolden firms to implement aggressive tax strategies that are difficult to detect or penalize. However, this behavior also raises ethical concerns. Folarin et al. (2021) argue that while such strategies may improve short-term financial performance, they can erode stakeholder trust and damage long-term reputational capital, particularly as expectations around corporate transparency and social responsibility increase. The Nigerian corporate landscape presents a compelling case for this analysis. Mohammed et al. (2019) and Eze et al. (2021) examined the relationship between politically connected boards and tax aggressiveness among listed firms. Their findings suggest that political connections are not merely symbolic but actively shape corporate tax behavior. This systemic interplay of political influence and regulatory weakness can institutionalize tax aggressiveness, undermining public trust in the tax system. As such, there is a growing need for regulatory reforms that mitigate the influence of political connections on corporate governance, thereby fostering greater tax compliance and fiscal responsibility in emerging markets. Premised on the above, the study formulates the hypothesis thus:

H_{01}: Board of Directors Political Connection has positive significant impact on tax aggressiveness of consumer and industrial goods listed in the NGX.

2.3 Board of Directors Political Connections and Corporate Governance

In Nigeria's dynamic business landscape, the influence of politically connected board members on corporate decision-making has emerged as a critical factor shaping governance practices. Recent research suggests that these connections offer firms unique advantages, such as enhanced access to regulatory frameworks and government resources, which can facilitate smoother operations in environments marked by bureaucratic complexities (Adeniran & Udeogu, 2020). For example, in the oil and gas sector, companies often secure vital contracts and licenses through directors who have established networks within political circles. Such access can be instrumental in overcoming regulatory hurdles; however, it also introduces the risk of decisions being swayed by political expediency rather than sound business judgment. Politically connected board members may prioritize short-term political gains over long-term strategic goals, leading to governance challenges that undermine shareholder value. Empirical evidence from Nigerian firms indicates that while these directors bring valuable insights into navigating government relations, their involvement in critical decision-making processes can sometimes result in conflicts of interest, especially when personal political ambitions intersect with corporate objectives (Oladele & Opeyemi, 2019).

This duality is particularly evident in sectors with substantial government oversight, where political ties can both expedite decision-making and compromise the integrity of governance structures. In some cases, boards composed of individuals with strong political affiliations have been observed to favor investments and projects that align more closely with political interests rather than the company's long-term growth strategies. Such practices have led to instances where strategic decisions were influenced by external political pressures rather than by robust financial analyses, thereby affecting overall firm performance. Moreover, the presence of politically affiliated directors may dilute the effectiveness of independent oversight mechanisms, reducing transparency and accountability within the board. This phenomenon is evident in certain Nigerian financial institutions where board decisions have at times been critiqued for reflecting political loyalties over prudent risk management practices, ultimately eroding investor confidence (Adeniran & Udeogu, 2020).The Nigerian experience highlights a critical governance dilemma: while political connections can provide valuable advantages in a complex regulatory environment, they can also create vulnerabilities when such relationships compromise objective decision-making. This tension underscores the need for enhanced corporate governance frameworks that balance the benefits of political insights with stringent oversight to prevent undue influence. By instituting robust checks and balances, companies can mitigate the potential adverse effects of political interference, ensuring that the strategic direction of the firm remains aligned with the interests of shareholders and the broader economic landscape. As illustrated by recent empirical studies, a nuanced approach that leverages political networks without compromising ethical standards and operational efficiency is essential for sustainable corporate growth in Nigeria (Oladele & Opeyemi, 2019).

2.4. Firm-Level Attributes and Tax Aggressiveness

Firm-level financial characteristics significantly influence corporate tax behavior in Nigeria. Key among these is the operating cash flow ratio, the debt-to-asset ratio, and the firm size. The operating cash flow ratio, which reflects a firm's liquidity, is positively associated with tax aggressiveness. Firms with strong cash flows may invest in tax planning strategies such as timing revenue recognition or exploiting depreciation rules to reduce tax liabilities. While such practices enhance short-term liquidity and financial flexibility, they may attract increased scrutiny from regulators if perceived as overly aggressive (Adegbie & Olowookere, 2019).The debt-to-asset ratio, a measure of financial leverage, also shapes tax planning behavior. Highly leveraged firms often face liquidity pressures and may adopt aggressive tax strategies such as deferring liabilities or reclassifying expenses to preserve cash and meet debt obligations. This tendency is particularly evident in Nigeria, where high borrowing costs and limited access to affordable capital compel firms to manage tax burdens strategically. However, while such measures may alleviate immediate financial stress, they can expose firms to future tax adjustments and reputational risks (Owolabi & Adeyemi, 2020).Firm size is another important determinant. Larger firms in Nigeria typically have more resources, in-house tax expertise, and access to sophisticated advisory services, enabling them to exploit legal tax loopholes more effectively than smaller firms. Such companies may engage in transfer pricing or establish subsidiaries in low-tax jurisdictions, benefiting from economies of scale in tax planning. However, their complex tax strategies often draw increased attention from tax authorities, potentially affecting long-term reputational capital. In contrast, SMEs tend to adopt more conservative tax approaches due to limited resources and a heightened sensitivity to regulatory penalties (Chukwu & Oseni, 2022).

Collectively, these firm-level attributes, liquidity, leverage, and scale, create a nuanced environment where a mix of financial capability, risk tolerance, and regulatory pressure shapes tax planning decisions. For example, while a large Nigerian conglomerate may aggressively optimize tax to boost shareholder value, a mid-sized manufacturing firm might prioritize compliance to avoid audit risk. The interplay of these variables underscores the need for policy frameworks that account for firm heterogeneity in tax behavior. As Nigeria continues to reform its fiscal landscape, understanding how firm characteristics influence tax strategies is critical for developing balanced policies that discourage excessive tax avoidance without stifling legitimate financial management.

2.5.Empirical Review

The following empirical studies examine the influence of politically connected boards and firm-level attributes on tax aggressiveness, providing a foundation for the present investigation. Fan and Chen (2023) investigated how political connections influence the relationship between firms' business strategies and their tax aggressiveness in China. Using a panel regression model, they analyzed data from 2011 to 2017 to assess variations in corporate tax strategies. The study found that firms adopting innovative business strategies tended to engage in tax aggressiveness. However, politically connected firms demonstrated lower levels of tax aggressiveness compared to non-connected firms. The authors argued that political connections impose certain costs, such as increased regulatory scrutiny and reduced flexibility in tax-saving strategies. Their results suggested that political connections act as a moderating force in corporate tax decisions. The study provided insights into how firms strategically adjust their tax behaviors based on their business models and political affiliations. These findings contribute to the broader discussion on corporate taxation, political influence, and regulatory oversight in emerging markets. Also, Ahmad et al. (2024) explored tax payment behaviors among politically connected firms in Pakistan, distinguishing between civil and military connections. Their empirical analysis used a dataset of listed firms to assess how different types of political ties influence tax aggressiveness. The results showed that firms with civil political connections were more tax aggressive, paying significantly lower taxes compared to non-connected firms. In contrast, firms with military connections exhibited a higher tax burden, suggesting that political affiliation type matters in corporate tax strategies. The study provided insights into the complex nature of political influence on corporate taxation, revealing a divergence in tax compliance based on the type of political association. The authors argued that military-connected firms might be subject to stricter regulatory scrutiny, leading to higher tax payments. Their findings highlighted the need for a nuanced approach in assessing political connections and tax strategies. These insights are particularly relevant for policymakers in economies where political affiliations shape corporate decision-making.

Furthermore, Otuedon and Omoye (2024) explored the impact of board characteristics on tax planning among publicly listed companies in Nigeria. Utilizing a five-year dataset from 2017 to 2021, their study employed panel regression techniques to assess the influence of various board attributes. The results indicated that both board independence and political connections are positively associated with proactive tax planning practices. In contrast, board size and gender diversity did not show a significant impact. The authors suggest that while politically connected board members may facilitate aggressive tax strategies, there is a need for stringent monitoring to prevent potential tax manipulations that could adversely affect government revenue. While Ugwu et al. (2024) focused on the relationship between board characteristics and tax aggressiveness in Nigeria's banking sector. Analyzing data from nine listed deposit money banks over a decade (2012-2022), the study found that board independence and size did not significantly influence tax aggressiveness. However, gender diversity on boards was associated with a higher cash-effective tax rate, suggesting that increased female representation may lead to more conservative tax practices. The authors recommend maintaining smaller, expert-rich boards and ensuring that female directors possess substantial tax-related expertise to mitigate aggressive tax behaviors effectively.

Ahmad et al. (2023) investigated how different types of political connections and periods of political uncertainty affect earnings credibility in Pakistani firms. The study categorized political connections into civil and military groups and assessed their impact on financial reporting. Findings revealed that firms with civil political ties reported less credible earnings, whereas those connected to the military demonstrated more reliable financial reporting. Additionally, heightened political uncertainty was found to diminish earnings credibility across the board. These insights underscore the complex interplay between political affiliations and financial transparency, highlighting the need for robust governance frameworks to enhance earnings reliability. Also, Lee and Kim (2021) explored how the political affiliations of board members impact tax aggressiveness in South Korean publicly listed companies. Analyzing data from 2008 to 2016 with a generalized method of moments (GMM) estimator, the study found that politically connected firms engage less in aggressive tax strategies, particularly during election years. The authors suggested that firms avoid aggressive tax behavior to prevent political backlash and reputational damage. Moreover, politically connected firms benefited from favorable regulatory environments, reducing the incentive to exploit tax loopholes. The study adds to the literature by emphasizing the temporal nature of political influence on corporate tax decisions.

Okagbare and Okolie (2024) evaluated the relationship between tax aggressiveness and operating cash flows in Nigerian banks. Analyzing data from 12 banks over the period 2012 to 2021, the study employed panel least squares estimation techniques. The results indicated a negative and negligible association between tax aggressiveness proxies and operating cash flows, suggesting that aggressive tax planning does not significantly impact the liquidity position of these banks. This finding implies that other factors may play more substantial roles in influencing the operating cash flows of financial institutions. The authors further argued that while tax aggressiveness can reduce tax liabilities, its effect on immediate cash flow generation remains minimal, as operational efficiency, cost management, and revenue diversification appear to be more critical determinants. Additionally, the study highlighted the need for regulatory authorities to focus on broader financial management practices beyond just tax compliance. The study recommended future research to explore the mediating effects of corporate governance and macroeconomic variables on the tax aggressiveness–cash flow nexus. The study's insights provide valuable implications for policymakers, financial managers, and stakeholders seeking to enhance the financial resilience of Nigerian banks.

Stevanie and Sudirgo (2024) analyzed the effect of leverage, liquidity, and firm size on tax aggressiveness in the building and construction industry. Using data from 21 companies over the period 2020 to 2022, the study applied Partial Least Squares (PLS) methodology. The results indicated that leverage and firm size do not have a significant impact on tax aggressiveness. In contrast, liquidity was found to have a positive and significant effect on tax aggressiveness, implying that companies with higher liquidity are more likely to engage in aggressive tax strategies. This research highlights the role of liquidity in influencing tax planning decisions within the construction sector. The authors explained that firms with ample cash reserves have more flexibility to exploit tax loopholes and implement complex tax avoidance schemes. They further suggested that liquidity provides the financial cushion necessary for companies to bear potential legal costs associated with aggressive tax planning. Moreover, they emphasized that policymakers should closely monitor highly liquid firms to mitigate potential revenue losses. The study also recommended exploring the mediating role of managerial incentives in future research. These findings offer practical implications for regulators and stakeholders seeking to understand the financial factors driving tax behavior in the construction industry.

Ilomata et al. (2024) conducted a study to assess the impact of liquidity, leverage, and firm size on tax aggressiveness among mining companies listed on the Indonesia Stock Exchange between 2020 and 2022. Utilizing Partial Least Squares (PLS) for data analysis, the findings revealed that liquidity and leverage do not significantly influence tax aggressiveness. However, firm size demonstrated a negative and significant effect, indicating that larger firms are less likely to engage in aggressive tax planning. These results suggest that while liquidity and leverage may not be primary determinants, the size of a firm plays a crucial role in its tax strategy decisions within the mining industry. The authors argued that larger firms prioritize reputational concerns and regulatory compliance, which discourages aggressive tax behavior. They also noted that such companies are more visible to tax authorities and the public, reducing the incentive to pursue aggressive tax practices. The study highlighted the importance of corporate transparency in shaping tax-related decisions. The study recommended that future research examine the influence of ownership structure and board composition on tax aggressiveness. These findings underscore the necessity for regulators to consider firm-specific dynamics when formulating tax policies for the mining sector.

2.6 Theoretical Review

Political Economy Theory

Political Economy Theory has long served as a critical lens through which scholars examine the interplay between politics, economics, and corporate behavior. Rooted in the seminal work of Adam Smith (1776), the theory has evolved over centuries to provide insights into how political institutions and economic policies are mutually constitutive. At its core, Political Economy Theory asserts that the distribution of resources, regulatory practices, and fiscal policies are not isolated phenomena but are deeply embedded within the political fabric of society. This perspective has become especially pertinent in an era where corporate strategies are increasingly shaped by the nuances of political influence and lobbying practices. In contemporary discussions, the relevance of Political Economy Theory is underscored by the observation that politically connected companies often gain access to favorable tax treatments, and regulatory leniency, or exploit loopholes in the tax system. These firms leverage their political ties to secure advantages that may not be available to their less-connected competitors. For instance, it has been observed that companies with strong political affiliations are better positioned to influence tax policies and secure exemptions or reductions that directly impact their bottom line (Lee, 2019). In this context, the theory illuminates the pathways through which political lobbying can shape tax policies, particularly in environments where governance structures may allow for significant discretionary power. Such dynamics are evident in the Nigerian corporate landscape, where the interaction between political connections and fiscal policy has profound implications for economic equity and regulatory compliance.

The nexus between political connections and tax aggressiveness is particularly salient when examining the role of corporate boards in Nigeria. Boards that include members with established political networks can, in effect, convert political capital into economic gain. These executives are often in a position to secure preferential treatment in the form of reduced tax liabilities, either through direct influence over policy decisions or by capitalizing on existing regulatory gaps. The phenomenon, while providing immediate financial benefits to the firms involved, raises critical questions about fairness in the tax system and the broader implications for public revenue. Recent empirical studies suggest that such politically motivated tax strategies are not merely opportunistic but are indicative of a systematic exploitation of political relationships to gain economic advantage (Fisman & Love, 2004). This exploitation of connections is reflective of a broader trend where the blurring of lines between political influence and corporate governance creates an environment ripe for fiscal manipulation. Nigeria's political-economic environment offers a compelling case study in the application of Political Economy Theory. The country's regulatory framework and the persistence of political patronage have created conditions that facilitate and, to some extent, restrain aggressive tax practices. On one hand, the deep-seated culture of political affiliation in corporate boardrooms allows companies to navigate a labyrinth of regulatory and policy-related challenges by leveraging informal networks. Such networks often result in access to insider information and preferential regulatory treatment that enables these firms to minimize their tax liabilities strategically. On the other hand, recent reforms aimed at increasing transparency and accountability have begun to impose constraints on these practices, highlighting a tension between entrenched political interests and emerging demands for fiscal integrity (Obi, 2021).

This dual dynamic where political connections can enable and eventually curb tax aggressiveness illustrates the complex and often contradictory nature of the Nigerian political-economic system. The theory posits that the interplay between political lobbying, regulatory capture, and economic policy not only shapes corporate behavior but also affects the overall fiscal health of the nation. Aggressive tax avoidance strategies, while beneficial for individual firms in the short term, can erode public trust and undermine the government's capacity to generate revenue for essential services. As governments worldwide, including Nigeria's, increasingly focus on combating tax evasion and fostering a more equitable tax system, the insights provided by Political Economy Theory become invaluable for understanding the underlying drivers of corporate tax strategies (Acemoglu & Robinson, 2012). Moreover, the implications of politically connected tax aggressiveness extend beyond the immediate fiscal benefits accrued by individual firms. They carry significant societal repercussions. Reduced tax revenues can impair public spending on infrastructure, healthcare, and education, exacerbating socioeconomic disparities. The theory encourages a reexamination of the regulatory frameworks that allow such practices to persist, advocating for institutional reforms that enhance transparency and accountability in corporate governance. By highlighting the critical role of political institutions in shaping economic outcomes, Political Economy Theory provides a robust framework for policymakers seeking to balance the interests of the private sector with the broader goals of national development and fiscal justice.

3.0. Methodology

This study adopts a positivist research philosophy and a deductive approach grounded in agency theory. Hypotheses are formulated and tested empirically through econometric models. A longitudinal research design is employed, utilizing secondary data from 29 Nigerian listed companies covering 2019–2024 within the consumer and industrial goods segments. Data were sourced from audited annual reports, the Nigerian Stock Exchange (NSE) database, and public records, capturing board political connections, financial metrics, and tax data. The dependent variable, tax aggressiveness, is proxied by the Effective Tax Rate (ETR) and the Book-Tax Differences (BTD). In contrast, key independent and control variables include Board Political Connections (BDPC), Operating Cash Flow Ratio (OCFR), Debt-to-Asset Ratio (DAR), Firm Size (FS), and Board Independence (BI). Due to the potential heterogeneity concern, the study adopts the panel estimation technique using the E-View 10 software.

Model Specification

This study adapts the conceptual model proposed by Sulistyana and Ismanto (2025), which establishes a theoretical relationship between political connections, managerial ownership, capital intensity, company size, and tax aggressiveness. Drawing upon this framework and integrating relevant independent variables based on prior empirical literature, the study specifies its econometric models below to examine how political board connections influence corporate tax aggressiveness using two alternative proxies: Effective Tax Rate (ETR) and Book-Tax Differences (BTD).Relying on the political economy theory and modifying the framework of Sulistyana and Ismanto (2025), the econometric models for this study are presented as follows:

Model 1: Tax aggressiveness measured using the Effective Tax Rate (ETR)

$ETR_{it}=\beta0+\beta1BDPC_{it}+\beta2OCFR_{it}+\beta3DAR_{it}+\beta4FS_{it}+\beta5BI_{it}+\varepsilon_{it}$———————————— [1]

Model 2: Tax aggressiveness measured using the Book-Tax Differences (BTD)

$BTD_{it}=\beta0+\beta1BDPC_{it}+\beta2OCFR_{it}+\beta3DAR_{it}+\beta4FS_{it}+\beta5BI_{it}+\varepsilon_{it}$———————————— [2]

Where: ETR= Effective Tax Rate; BTD= Book-Tax Differences; BDPC = Board of Directors Political Connections; OCFR = Operating Cash Flow Ratio; DAR = Debt-to-Asset Ratio; FS = Firm Size (log of total assets); BI = Board Independence; $\beta0$= constant; $\beta1$-$\beta5$= unknown coefficient; t= time (2019-2023); i= firm; and μ= error term.

Table 1: Measurement of variables

S/n	Variables	Acronyms	Measurement	Apriori sign	Justification
			Dependent variable		
1	Effective tax rate	ETR	Total tax expenses/Pre-tax Book Income.	Nil	Sulistyana and Ismanto (2025).
2	Book-tax differences	BTD	Pre-tax Book Income−Taxable Income/Total Assets	Nil	Guenther (2014).
			Independent variables		
3	Board of Directors Political Connections	BDPC	A dummy variable equal to 1 if any of the themes used to represent BDPC is present and 0 otherwise, as measured by the Politically Board.	– / +	Sulistyana and Ismanto (2025).
			Control Variables		
4	Operating cash flows ratio	OCFR	The Percentage of Cash flows from operations divided by total assets	+	Okagbare and Okolie (2024)
5	Debt to asset ratio	DAR	The Percentage of total debts divided by total assets	–	Stevanie and Sudirgo (2024).
6	Firm size	FS	The natural logarithm of total assets	– / +	Ilomata et al. (2024).
7	Board Independence	BI	The proportion of independent non-executive directors relative to the total number of directors	+	Ugwu et al. (2024).

Source: Researcher's Compilation (2025)

4.0. Results Discussion

Table 2: Panel Hausman Test

Effective Tax Rate (Model 1)				
	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
	Cross-section random	3.265923	5	0.6591
Book-Tax Differences (Model 2)				
	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
	Cross-section random	18.981246	5	0.0019

Source: Author's Computation (2025)

Table 2 presents the Hausman test results for selecting between Fixed and Random Effects models for two proxies of tax aggressiveness: Effective Tax Rate (ETR) and Book-Tax Differences (BTD). For Model 1 (ETR), the test yields a p-value of 0.6591, indicating Random Effects is appropriate. Conversely, Model 2 (BTD) reports a p-value of 0.0019, supporting the Fixed Effects model. These findings imply that model selection depends on the chosen proxy. The use of Random Effects for ETR and Fixed Effects for BTD ensures methodological consistency and reliable inference in the regression analysis.

Table 3: Panel Multiple Regression Results

Model 1: Random Effects Regression (ETR as Proxy)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDPC	3.313337	1.972661	1.679628	0.0950
OCFR	-0.004472	0.034877	-0.128210	0.8981
DAR	0.041818	0.181824	0.229989	0.8184
FS	0.215143	0.382942	0.561816	0.5750
BI	2.343354	3.272080	0.716167	0.4749
R-squared	0.625584	Durbin-Watson stat		2.407657
Model 2: Fixed Effects Regression (BTD as Proxy)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDPC	0.666908	1.055834	0.631641	0.5287
OCFR	-0.053952	0.028034	-1.924523	0.0564
DAR	-0.035498	0.189827	-0.187001	0.8519
FS	-0.320532	1.650857	-0.194161	0.8463
BI	0.118287	2.908220	0.040673	0.9676
C	2.005429	12.22951	0.163983	0.8700
R-squared	0.611412	Durbin-Watson stat		2.025464

Source: Author's Computation (2025)

H_{01}: There is no significant relationship between the board of directors' political connections and tax aggressiveness of consumer and Industrial Goods Companies Listed in the NGX.

In Table 3, where ETR is a proxy in Model 1, the coefficient for Board of Directors Political Connections (BDPC) was 3.313337 with a p-value of 0.0950. Although this positive coefficient implies that politically connected firms tend to have higher ETR (i.e., lower tax aggressiveness), the effect is not statistically significant at the 5% level. This dual dynamic where political connections can enable and eventually curb tax aggressiveness illustrates the complex and often contradictory nature of the Nigerian political-economic system. On one hand, the deep-seated culture of political affiliation in corporate boardrooms allows companies to navigate a labyrinth of regulatory and policy-related challenges by leveraging informal networks. Such networks often result in access to insider information and preferential regulatory treatment that enables these firms to minimize their tax liabilities strategically. On the other hand, recent reforms aimed at increasing transparency and accountability have begun to impose constraints on these practices, highlighting a tension between entrenched political interests and emerging demands for fiscal integrity (Obi, 2021). As governments worldwide, including Nigeria's, increasingly focus on combating tax evasion and fostering a more equitable tax system, the insights provided by Political Economy Theory become invaluable for understanding the underlying drivers of corporate tax strategies (Acemoglu & Robinson, 2012). Moreover, the implications of politically connected tax aggressiveness extend beyond the immediate fiscal benefits accrued by individual firms. They carry significant societal repercussions. Reduced tax revenues can impair public spending on infrastructure, healthcare, and education, exacerbating socioeconomic disparities. The theory encourages a reexamination of the regulatory frameworks that allow such practices to persist, advocating for institutional reforms that enhance transparency and accountability in corporate governance. Political Economy Theory provides a robust framework for policymakers seeking to balance the interests of the private sector with the broader goals of national development and fiscal justice.

The findings aligns partially with studies like Zhang and Luo (2022) and Adegbite and Olayemi (2020), which observed lower tax aggressiveness in politically connected firms due to regulatory scrutiny and fear of exposure. However, this study's lack of statistical significance suggests that, within Nigeria, the moderating power of political connections may be diluted by contextual institutional factors, such as inconsistent enforcement or informal political influence. Also, the OCFR had a coefficient of -0.004472 and a p-value of 0.8981, showing no statistically significant effect on ETR. This finding differs from Okagbare and Okolie (2024), who noted a weak link between tax aggressiveness and cash flows in Nigerian banks. Also, it contradicts Ramadanti et al. (2024), who found some influence of liquidity on tax behavior. In this study, the insignificance suggests that liquidity, as proxy by OCFR, is not a strong determinant of tax aggressiveness among Nigerian quoted firms.

The DAR showed a coefficient of 0.041818 with a p-value of 0.8184, indicating no significant influence of leverage on ETR. This contradicts findings from Martins and Sule (2024) and Dibie and Ogbodo (2024), who documented a negative and significant relationship between leverage and tax aggressiveness in Nigeria. The divergence here may suggest that the tax advantages of debt financing (i.e., interest deductibility) are not being fully utilized or recognized within the sampled firms. Moreover, Firm Size (FS) had a coefficient of 0.215143 with a p-value of 0.5750, showing an insignificant positive relationship with ETR. This contradicts studies such as Ramadanti et al. (2024) and Ilomata et al. (2024), where firm size negatively influenced tax aggressiveness. The discrepancy could be attributed to differences in sectoral composition or regulatory enforcement in Nigeria compared to other jurisdictions. While Board Independence (BI) yielded a coefficient of 2.343354 and a p-value of 0.4749, suggesting no significant effect on tax aggressiveness. This aligns with the broader conclusion by Lee and Kim (2021) and Ahmad et al. (2023) that internal governance mechanisms, such as board independence, may not always curb aggressive tax behaviour, especially in environments with a weak governance culture. Overall, the R-squared value is 0.625584, indicating that the model explains approximately 62.6% of the variation in the Effective Tax Rate, reflecting a moderate explanatory power level. Moreover, the Durbin-Watson statistic of 2.407657 suggests no serious autocorrelation issue in the model.

Furthermore, where BTD was used as a proxy in Model 2, it showed a BDPC coefficient of 0.666908 with a p-value of 0.5287, indicating a positive but statistically insignificant relationship. While the positive coefficient implies that politically connected firms might engage in more aggressive tax planning (via larger BTDs), the insignificance suggests this pattern is not robust. Within the context of political economy theory, politically connected companies often gain access to favorable tax treatments, and regulatory leniency, or exploit loopholes in the tax system. These firms leverage their political ties to secure advantages that may not be available to their less-connected competitors. For instance, companies with strong political affiliations are better positioned to influence tax policies and secure exemptions or reductions that directly impact their bottom line (Lee, 2019). Boards that include members with established political networks can, in effect, convert political capital into economic gain. These executives are often in a position to secure preferential treatment in the form of reduced tax liabilities, either through direct influence over policy decisions or by capitalizing on existing regulatory gaps. The phenomenon, while providing immediate financial benefits to the firms involved, raises critical questions about fairness in the tax system and the broader implications for public revenue. Recent empirical studies suggest that such politically motivated tax strategies are not merely opportunistic but are indicative of a systematic exploitation of political relationships to gain economic advantage (Fisman & Love, 2004). This exploitation of connections is reflective of a broader trend where the blurring of lines between political influence and corporate governance creates an environment ripe for fiscal manipulation. Nigeria's political-economic environment offers a compelling case study in the application of Political Economy Theory. The country's regulatory framework and the persistence of political patronage have created conditions that facilitate aggressive tax practices. This is evident in the Nigerian corporate landscape, where the interaction between political connections and fiscal policy has profound implications for economic equity and regulatory compliance.

This result resonates with Rudyanto et al. (2023), who found that political connections do not independently drive tax aggressiveness unless moderated by ethical standards, and with Ahmad et al. (2024), who noted variation in tax behavior based on the type of political tie. However, the OCFR in this model had a coefficient of -0.053952 with a p-value of 0.0564, indicating a marginally insignificant inverse relationship. This implies that firms with higher liquidity might be slightly less aggressive in tax planning, which supports the theoretical expectation and partially aligns with findings from Ilomata et al. (2024). The DAR had a coefficient of -0.035498 with a p-value of 0.8519, reinforcing the earlier conclusion that leverage does not significantly impact tax aggressiveness in Nigerian firms. Again, this contradicts evidence from Dibie and Ogbodo (2024), suggesting that firm-level tax behavior in Nigeria may deviate from theoretical norms due to systemic or strategic factors.

Also, the coefficient for Firm Size (FS) was -0.320532, with a p-value of 0.8463, showing no significant impact. This reaffirms the inconclusive role of firm size on tax planning in this study, in contrast with Ramadanti et al. (2024) and Martins and Sule (2024), who found significant size effects in other sectors or regions. Also, Board Independence (BI) returned a coefficient of 0.118287 and a p-value of 0.9676, reaffirming its lack of influence on aggressive tax behavior. This strengthens the conclusion that board independence alone may not be effective in curbing tax avoidance, particularly in jurisdictions with weak regulatory oversight or ineffective governance practices. The R-squared value is 0.611412, suggesting the model explains approximately 61.1% of the variation of the book-tax difference. Moreover, the Durbin-Watson statistic is 2.025464, close to the ideal value of 2, indicating no significant autocorrelation in the model's residuals.

Across both models, the result suggests that while politically connected firms may exhibit less or more tax aggressiveness depending on the proxy used, political affiliations alone do not exert a statistically significant impact on tax behavior in Nigerian quoted companies. This finding contrasts with several studies (Adegbite & Olayemi, 2020; Zhang & Luo, 2022), indicating that the Nigerian institutional environment may moderate or obscure the effects of political connections. Moreover, none of the control variables, OCFR, DAR, FS, or BI, was statistically significant in either model. This mirrors Okagbare and Okolie (2024), who found a limited impact of firm-level financial metrics on tax behavior. The results imply that unobserved variables, including industry practices, ownership structure, regulatory quality, or macroeconomic factors, may be more influential in shaping tax planning strategies. These findings underscore that enhancing tax compliance in Nigeria may require reforms that go beyond governance structures, focusing instead on strengthening enforcement mechanisms, closing regulatory loopholes, and promoting institutional accountability. The empirical results, while inconclusive on political connections, offer a foundation for future research into how informal institutions, enforcement quality, and sector-specific dynamics influence corporate tax behavior.

5.0 Conclusion

The empirical evidence from both regression models consistently reveals that BDPC does not statistically impact tax aggressiveness in the Nigerian context. Although the coefficients for BDPC were positive in both models, suggesting a tendency for politically connected firms to have higher ETRs or wider BTDs, the associated p-values were above the conventional threshold of 0.05. This lack of statistical significance implies that political connections alone may not sufficiently explain variations in tax planning practices among Nigerian firms. Overall, the findings indicate that traditional governance metrics and financial ratios may not be Nigeria's primary determinants of tax aggressiveness. Instead, the results suggest that more complex, firm-specific, or systemic institutional factors such as regulatory enforcement, tax administration efficiency, and informal norms could be more influential in shaping tax behavior. This study contributes to the existing literature by highlighting the limited role of political connections and governance variables in explaining tax aggressiveness in an emerging economy like Nigeria. It also signals to policymakers and stakeholders that efforts to improve tax compliance and reduce aggressive tax strategies must go beyond corporate board structures and address deeper institutional and regulatory challenges within the tax system.

Based on the findings, the study made the following recommendations: (i) the lack of significant influence from political connections and governance structures suggests that regulatory enforcement may be weak. The Federal Inland Revenue Service (FIRS) should improve its capacity to detect and penalize aggressive tax planning through stronger audits, compliance checks, and enforcement actions; (ii) regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) should enforce enhanced tax reporting requirements. Transparent and detailed tax disclosures in corporate financial statements can help discourage aggressive tax behaviors and enable better stakeholder scrutiny; (iii) since neither Board Political Connections nor Board Independence significantly impacted tax aggressiveness, policy reforms should prioritize strengthening institutions like the tax authorities, anti-corruption agencies, and the judiciary rather than focusing solely on-board structures; (iv) companies should be encouraged to view tax compliance as part of their ethical and social responsibility. Professional bodies like ICAN and CITN can lead awareness campaigns emphasizing the long-term reputational and economic benefits of responsible tax behavior; and (v) the government should critically evaluate current tax incentives to prevent abuse as tax avoidance tools. More targeted, performance-based incentives can help reduce aggressive tax planning opportunities while supporting investment goals. Future study can examine how institutional reforms can shape tax aggressiveness practices.

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