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CORPORATE SOCIAL RESPONSIBILITY AND TAX AVOIDANCE: EMPIRICAL EVIDENCE FROM QUOTED CONSUMER GOODS FIRMS

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ABSTRACT:

The study examined the effect of corporate social responsibility disclosure on the tax avoidance of listed manufacturing firms on the Nigerian Exchange Group (NGX). The specific objectives of the study are to: examine the effect of social responsibility disclosure on the effective tax rate of quoted manufacturing firms; and, determine the effect of social responsibility disclosure on the book-tax difference of quoted manufacturing firms. The study adopted the ex post facto research design. Out of the population of 72 manufacturing firms, using the judgmental sampling method, twenty-one (21) firms were selected from the Nigerian Exchange Group (NGX). The data used were secondary and were drawn from 2011 to 2019. The data used were sourced from the firm's annual report, the Nigerian Exchange Group fact book and the Internet. The data collected were analysed using both descriptive and inferential statistical techniques. The hypotheses were analysed using multiple regression; specifically, the Panel Estimated Generalised Least Squares (EGLS) technique. The results showed a significant effect of social responsibility disclosure on the effective tax rate; and, no significant effect of social responsibility disclosure on the book-tax difference. Based on these, the study recommends among others that managers develop models that factor in CSR externalities into share price valuation; and, (potential) investors should pay crucial attention to the CSR stance of managers in publicly listed companies as this may be indicative of the tax avoidance behaviour of the manager and signal several reputational risks in the future.

1. INTRODUCTION

There is mounting pressure from stakeholders on manufacturing firms to adopt corporate social responsibility (CSR) practices (Abbas, 2020; Abbas and Sagsan, 2019). The move has been primarily driven by public pressure groups, climate change caused by air, water and soil pollution (Li, Zhao, Zhang, Chen, and Cao, 2018), growing consumer awareness, and local and international regulations (Abbas, 2020). CSR philosophy emerged in the mid-70 and is based

on the principle that businesses are an integral part of the society they operate (Crane, McWilliams, Matten, Moon, and Siegel, 2008). This negated the view by classical economists that the sole objective of a business is to create value for its shareholders (Sung-Kim and Oh, 2019). According to critics, spearheaded by Milton Friedman, the only social responsibility of business "is to use its resources and engage in activities designed to increase its profits" (cf Friedman, 1970).

Studies have outlined the benefits of CSR engagement, including an improved firm image, reputation and brand name (Benito-Hernández, Platero-Jaime, & Esteban-Sánchez, 2016). Corporate income taxes 'are non-discretionary expenditure imposed by the government on all profitable firms' (Edwards, Schwab, & Shevlin, 2013, p.6). In Nigeria, private and public limited corporations are liable to pay income tax as stipulated in the Company Income Tax Act (CITA) at the rate of 30% and 2% education tax on the assessable profit respectively. Tax revenue is vital to the well-functioning of societies; and, enables the provision of public goods/welfare, transportation infrastructure, and national defence (Center on Budget and Policy Priorities, 2015; Williams, 2011).

Corporate tax avoidance refers to a managerial practice that aims to reduce taxable income through tax planning activities, whether these are legal, questionable, or even illegal (Chen, Chen, Cheng, & Shevlin, 2010). Tax avoidance suffocates 'the state's ability to provide essential services today and in the future' (Bird & Davis-Nozemack, 2018). There has been an upsurge in interest in corporate tax avoidance practices. This is mainly driven by public pressure coupled with strong media attention; thus, placing corporate tax avoidance under the spotlight. Tax avoidance hastens the erosion, and eventual disappearance, of valuable regulatory commons (Bird & Davis-Nozemack, 2018).

The consequences of corporate tax avoidance are multifaceted with implications for both businesses (Lazăr & Istrate, 2018) and society. Corporate tax avoidance has the potential to damage corporate reputation (Fisher, 2014), profitability (Katz, Khan, & Schmidt, 2013), firm value (Chang, Hsiao, and Tsai, 2013), stock prices and cost of capital (Lim, 2011; Cook, Moser, & Omer, 2017). From a societal view, corporate tax avoidance may obstruct the financing of projects that are essential for society (Slemrod, 2004).

The current study focuses on the nexus of corporate social responsibility and corporate tax avoidance of quoted manufacturing firms in the Nigeria Stock Exchange. There is a paucity of studies in this area in developing countries and specifically Nigeria. And inferring results from

developed countries may prove not suitable. Studies such as Salawu and Ololade (2018) have already shown evidence firms in the NSE in the long run engage in tax avoidance; however, only a few such as Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017), Umobong and Agburuga (2018) have attempted to explore a link between CSR and corporate tax avoidance among non-financial firms. Secondly, existing studies have argued that an empirical analysis of the effect of CSR on tax avoidance should focus on the distinct components of CSR (cf. Lanis & Richardson, 2012; Laguir, Staglianò, & Elbaz, 2015; Col & Patel, 2019). Studies mainly conducted in Nigeria on CSR have utilised the content analysis procedure or aggregated total corporate social responsibility expenditure; others, have also broken down CSR into social, economic and environmental dimensions. In this regard, studies that attempted to explore the link between CSR and tax avoidance followed suit. For instance, Umobong and Agburuga (2018) used a binary approach for scoring items disclosed; Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017) focused on CSR donations.

This is because a focus on a single proxy may lead to a loss of vital information on the dimensionality of tax avoidance. Existing studies such as Umobong and Agburuga (2018) and Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017) focus on the ETR. The study focuses on several alternative proxies of corporate tax avoidance to fully understand the effect of CSR on tax avoidance. Lastly, the study focuses on the manufacturing sector. Against, the backdrop of the issues discussed above which to the best of the researcher's knowledge, there is a dearth of empirical evidence tackled in the current study.

1.1 Objectives of the Study

The broad objective of the study is to explore the nexus of corporate social responsibility and corporate tax avoidance of quoted manufacturing firms in the Nigerian Exchange Group. The specific objectives of the study are, as follows:

1. To examine the effect of social responsibility disclosure on the effective tax rate of quoted manufacturing firms in Nigeria.
2. To determine the effect of social responsibility disclosure on the book-tax difference of quoted manufacturing firms in Nigeria.

1.2 Hypotheses

Ho_1: There is no significant effect of social responsibility disclosure on the effective tax rate.

Ho_2: There is no significant effect of social responsibility disclosure on the book-tax difference.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Corporate Social Responsibility (CSR)

The literature highlights and documents several definitions of the concept of CSR. According to the Confederation of Swedish Enterprise, there "is an increasing pressure on companies to respect human rights, fundamental labour law principles and basic environmental standards, regardless of where in the world they operate". This responsibility is broadly referred to as Corporate Social Responsibility (CSR). According to Hou (2019), the significance of CSR has steadily risen in the corporate manufacturing sector. The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders voluntarily" (European Commission, 2011). Ferrell, Liang, and Renneboog (2016), there are two main views on CSR. The first is the *good governance view*, stating that socially responsible firms can follow value-maximizing practices (fir example, Deng, Kang, & Low, 2013; Edmans, 2011). The second is the *agency view*, which states that the desire of some firms to participate in CSR activities is an indicator of agency problems. In line with CSR, a firm can not only be responsible to shareholders but also to other internal and external stakeholders (Wood, 1991). CSR, therefore, requires that managers consider stakeholders' interests along the philanthropic, ethical, legal, and economic dimensions (Watson, 2015). CSR involves acting ethically, contributing to economic development and making a profit, obeying the law, and improving the quality of life of workers, local communities, and society at large (Carroll, 1991).

CSR initiatives enhance a firm's reputation, while such practices enable an organisation to maintain a competitive advantage and increase customer loyalty (Asrarul-Haq, Kuchinke, & Iqbal, 2017). Barnett and Salomon (2006) summarised the following benefits for a company of being socially responsible: (1) it is easier to attract resources; (2) it can obtain quality employees; (3) it is easier to market products and services; (4) it can create unforeseen opportunities; and (5) it can be an important source of competitive advantage.

2.1.2 Tax Avoidance

Tax avoidance is distinct from tax evasion, which is the willful and illegal circumvention or violation of tax laws to minimize tax liability (Bird & Davis-Nozemack, 2018). Tax avoidance is also different from tax mitigation, which arises from actions taken to reduce tax liability that is clearly and expressly stated or encouraged by legal rules. According to Kim and Im (2017, p.1) Tax avoidance "is where a firm can either explicitly or implicitly reduce its tax burden without incurring additional expenses from tax investigations, in both short- and long-term". Corporate tax avoidance refers to "the downward management of taxable income through tax planning activities" (Lanis & Richardson, 2012, p. 86). Firms are incentivised to use tax avoidance mechanisms, such as inversions, transfer pricing manipulations, and tax havens, to maximize profits (Bird & Davis-Nozemack, 2018; Chen, Chen, Cheng, & Shevlin, 2010). Transfer pricing refers to the pricing of items of tangible and/or intangible nature between countries but within the same company; and is mostly used to move items from a high-tax jurisdiction to low-tax jurisdiction areas (Van Renselaar, 2016).

Tax avoidance practices seek to accomplish one of three things: payment of "less tax than might be required by a reasonable interpretation of a country's law," payment of a tax on "profits declared in a country other than where they were earned," or tax payment that occurs "somewhat later than the profits were earned" (Chavagneux, Palan, & Murphy, 2010). BTDs refer to the gap between pre-tax incomes, as shown in a company's published financial statement, and the taxable incomes reported to tax authorities. Taxable income refers to the amount calculated in line with the rules established by the tax authorities of a particular country and on which the income taxes are levied (Chytis, 2019).

2.1.3 Corporate Social Responsibility (CSR) and Tax Avoidance

Tax is the allocation of "scarce resources to a non-shareholder stakeholder" (Watson, 2015, p. 2). Thus, corporate tax avoidance has major consequences for governments in developed and developing countries. The lower taxes cause a reduction in the funds available to provide infrastructure, healthcare, and education (Van Renselaar, 2016). As a result, society bears the indirect costs of such activities. The payment of taxes represents the most elementary responsibility towards the state and the people who reside therein (Christensen & Murphy, 2004). Thus, this explains why firms are genuinely concerned about potential damage to their reputation from exposure to certain tax minimization strategies in the media (Freedman, 2010). Moreso Landry, Deslandes, and Fortin (2013) observed that the tax savings from aggressive tax planning could be far less than the costs of reputational loss.

The argument in the literature revolves around the stakeholder belief and shareholder primacy perspectives. Marta, Barros, and Sarmento (2019) using a sample of firms listed in NYSE and NASDAQ found that CSR is a mechanism to mitigate the risk of being scrutinized and consequently getting regulatory actions, as well as to control for negative reputational events. Landry, Deslandes, and Fortin (2013) found a positive relationship between CSR activities and tax avoidance in the Canadian context.

Therefore, tax avoidance may be viewed as an opportunistic behaviour; whereby, a firm exploits the implicit contract between the firm and society at the expense of the latter (Laguir, Staglianò, & Elbaz, 2015). The literature documents mixed findings on the relationship between CSR and tax avoidance (Huseynov & Klamm, 2012; Lin, Cheng, & Zhang, 2017). For instance, Huseynov and Klamm (2012) found evidence that it is socially acceptable to reduce tax payments. They argue that reduced tax payments increase profitability (Huseynov & Klamm, 2012). However, using data from U.S., Lanis and Richardson (2015) find that socially responsible firms are less likely to engage in a tax dispute over their tax obligations. And, Laguir, Staglianò, and Elbaz (2015) in France, found that CSR is negatively associated with the level of corporate tax avoidance.

2.2 Theoretical Review

2.2.1 Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that became the subject of great interest to scholars and business leaders in the 1970s (Van Limburg, Wentzel, Sanderman, & van Gemert-Pijnen, 2015). The proponent of stakeholder theory, Freeman (1984), stated that the primary objective of a business should be to create value for stakeholders. According to Freeman, stakeholders are any groups or individuals affected by or who can affect the achievements of the firm's objectives. Within the topic of CSR, stakeholder theory asserts that companies have social responsibilities that require them to consider the interests of all parties affected by their actions. In contrast to the traditional or shareholder view of a company, which argues that only the owners' or shareholders' interests are important, stakeholder theory argues that management should not only consider the interests of its shareholders in the decision-making process but also the interests of other stakeholders (Freeman, 1984). A firm's stakeholders include for example, employees, suppliers, customers, investors and governments, but can be defined broadly as 'any group or individual who can affect or is affected by the achievement of the firm's objectives (Freeman, 1984). According to

Clarkson (1995), stakeholders can be classified into *primary* and *secondary* stakeholder groups. Where *primary* stakeholders (shareholders and investors, employees, customers, government) have a direct influence on the company and are essential for the survival of the company, *secondary* stakeholders (media, competition, trade associations) have an indirect influence on the company and are not essential for the survival of the company (Clarkson, 1995).

Should a company choose to invest in a CSR activity that benefits the local community or should it use these resources to pay off its debts? In other words, should a company prioritize its local community stakeholder or its creditor stakeholder? Organizations often find themselves constrained by limited resources and bounded rationality, and thus tend to prioritize their stakeholders according to instrumental and/or normative considerations (Jamali, 2008). Over the years, it has been revealed that *power* (relates to the ability of the stakeholder to impose its will on others despite resistance to do something they would not ordinarily do), *legitimacy* (relates to the mandate of the stakeholder and the rights to use power concerning a claim made upon the firm), and *urgency* (the degree to which 'stakeholder claims call for immediate attention') are three attributes that play a prominent role determining stakeholder salience and thus in determining which stakeholder groups are more important to the firm.

Over the years scholars have advanced stakeholder theory and argued if stakeholder salience is relevant or not. This resulted in two main perspectives within the stakeholder theory, that is the *normative* and *descriptive perspectives*. While the *normative perspective* assumes that the legitimate interests of all stakeholders should be taken into account by organizations and thus stakeholder salience is less relevant, the *descriptive perspective* assumes that organizations identify which stakeholder interests are important, and thus stakeholder salience is directly relevant. The study is anchored on the stakeholder theory. According to Shafai, Amran, and Ganesan (2018), voluntary disclosures on non-financial information may form part of the monitoring mechanism to decrease information asymmetry between market participants. Secondly, stakeholder theory highlights a company's accountability beyond economic or financial performance.

2.3 Empirical Review

Ortas and Álvarez (2020) conducted a study titled 'Bridging the gap between corporate social responsibility performance and tax aggressiveness: The moderating role of national culture'. The sample of 2,696 companies utilised in the study was drawn from 30 countries. The study focused on the use of secondary data sources over the years 2002 to 2014. The authors employ

the use of multiple regression techniques to analyse the data. The results showed evidence of a negative relationship between corporate social responsibility elements (corporate social performance, corporate environmental performance and corporate governance performance) with tax aggressiveness.

Vacca, Iazzi, Vrontis, and Fait (2020) undertook a study titled 'The role of gender diversity on tax aggressiveness and corporate social responsibility: Evidence from Italian listed companies'. The sample consisted of 168 firms listed on Milano Stock Exchange between 2011 and 2018. The study relied on secondary data obtained from AIDA Bureau Van Dijk database. The data were analysed using the logit regression model. The results showed a non-significant positive effect of tax aggressiveness on CSR reporting.

Abdelfattah and Aboud (2020) conducted a study titled 'Tax avoidance, corporate governance, and corporate social responsibility: The case of the Egyptian capital market'. The final sample comprises 735 firm-year observations from among the EGX 100 Egyptian firms from 2007 to 2016. The study relied on secondary data analysed using Ordinary Least Squares. The results showed a significant negative effect of the effective tax rate on CSR disclosure.

Kristiadi, Kurniawati, and Naufa (2020) conducted a study titled 'Corporate social responsibility and tax aggressiveness: Evidence from Indonesia'. The sample comprised 67 manufacturing firms listed on the Indonesian Stock Exchange. The authors utilised secondary data from annual reports from 2008 to 2019. The data were analysed using the Generalized Method of Moments (GMM). The results showed that CSR has a non-significant negative effect on ETR. However, ETR had a significant negative effect on CSR.

Karlberg (2020) conducted a study titled 'The effects of CSR and female presence in corporate governance on firm tax avoidance'. The sample comprised the U.S. industrial firms across the ISS (RiskMetrics) and Compustat databases. The study relied on secondary financial statement data retrieved from Compustat North America's annual files from 2002 to 2017. They employed the use of multiple regression (OLS) techniques to analyse the data. The results showed a non-significant negative effect of CSR on cash ETR.

Marta, Barros, and Sarmento (2019) undertook a study titled 'Corporate social responsibility and limits for corporate tax avoidance'. The sample comprised 4,453 firm-year observations between 2002 and 2016 obtained from 914 firms listed on NYSE and NASDAQ. They utilised

secondary data analysed using multiple regression techniques. The results found no statistical evidence of an association between corporate tax avoidance and CSR. However, using quantile regression, corporate tax avoidance and CSR were associated with higher levels of corporate tax avoidance.

Col and Patel (2019) conducted a study titled 'Going to haven? Corporate social responsibility and tax avoidance'. They used a difference-in-difference approach. The sample comprised listed U.S. firms; and, the study relied on secondary hand-collected data. The results showed that legislation which allowed firms to have an affiliate in a tax haven increases the respective firms' CSR rating. The results are consistent with the risk management theory, which argues that firms hedge against the potential negative consequences of aggressive tax avoidance practices through an increase in positive CSR activities.

Rahmat and Kustiawan (2018) conducted a study titled 'Corporate Social responsibility, size, and tax aggressiveness: An empirical analysis'. The sample comprised 11 public companies listed in LQ45 Indonesia. The study relied on secondary data for the fiscal years 2013 to 2015. The data were analysed using multiple regression technique. The results showed a non-significant negative effect of CSR on ETR; while firm size had a significant negative effect on ETR.

Umobong and Agburuga (2018) undertook a study titled 'Corporate tax and corporate social responsibility of firms in Nigeria'. The study adopted a longitudinal and cross-sectional ex-post facto design. The sample comprised 154 firm-year observations. The study is based on secondary data obtained from audited financial statements from 2004 to 2015. The data were analysed using multiple regression technique. The results showed that corporate tax avoidance proxied via effective tax rate was positively related to CSR for environmental CSR activities; but, negatively related to CSR for poverty alleviation activities.

Gulzar et al. (2018) undertook a study titled 'Does corporate social responsibility influence corporate tax avoidance of Chinese listed companies?'. The sample comprised 3481 firm-year observations of listed companies on the Shenzhen and Shanghai stock exchanges'. The study relied on secondary data obtained from the China stock market and accounting research (CSMAR) database for the period 2009 to 2015. The data were analysed using multiple regression technique. The results showed that CSR was negatively related to current and cash-effective tax rates (proxies of corporate tax avoidance).

Shafai, Amran, and Ganesan (2018) undertook a study titled 'Earnings management, tax avoidance and corporate social responsibility: Malaysia evidence'. The sample comprised 270 companies listed in the main market of Bursa Malaysia for the year 2016. The study relied on secondary data. The data were analysed using multiple regression technique. The results showed that earnings management and tax avoidance positively correlate with corporate social responsibility.

Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017) undertook a study titled 'Corporate social responsibility performance and tax aggressiveness'. The study adopted the cross-sectional research design. The sample comprised 50 companies listed on the Nigerian Stock Exchange. The study relied on secondary data obtained from published financial statements for the period 2007 to 2013. The data were analysed using multiple regression technique. The results revealed a negative relationship between CSR performance and tax aggressiveness.

Kim and Im (2017) undertook a study titled 'Study on Corporate Social Responsibility (CSR): Focus on Tax Avoidance and Financial Ratio Analysis'. The final sample comprised 491 firms listed on the Korean Exchange. The study relied on secondary data obtained from the Korean Economic Justice Institute Index from 2005 to 2007. The data were analysed using multiple regression technique. The results showed a negative significant effect of CSR on BTD and Tax Savings. This was consistent in high and low CSR firms (i.e., active-CSR and passive-CSR firms).

Van Renselaar (2016) conducted a study titled 'The influence of corporate social responsibility on the level of corporate tax avoidance'. The final sample comprised 447 U.S. firms, i.e., a total of 3304 firm-year observations between 2002 and 2014. The study relied on secondary data retrieved from Thomson Reuters in the ASSET4 database. The data were analysed using multiple regression technique. The results showed that CSR had a negative effect on the effective tax rate. Specifically the economic and environmental dimensions were significant and negative in the full model; while the social dimension and corporate governance dimension were positive and significant.

Sari and Tjen (2016) undertook a study titled 'Corporate social responsibility disclosure, environmental performance, and tax aggressiveness'. The sample comprised non-financial companies listed on the Indonesian Stock Exchange. The study relied on secondary data

obtained from annual reports and accounts from 2009 to 2012. The data were analysed using multiple regression technique. The results showed that the level of CSR disclosure has a significant negative effect on tax aggressiveness (i.e., current ETR).

Zeng (2016) conducted a study titled 'Corporate social responsibility, tax aggressiveness and firm market value'. The sample comprised Canadian companies listed in the SandP/TSX 60 index over five years (2005-2009). The study used secondary data; which were analysed using the multiple regression technique. The results showed that five-year effective tax rates and annual effective tax rates were positively associated with the overall CSR scores and the social scores. The five-year effective tax rates were positively associated with the governance index; while the overall CSR ranking and governance scores were positively associated with market value.

Lanis and Richardson (2015) conducted a study titled 'Is Corporate Social Responsibility Performance Associated with Tax Avoidance?'. They employed a matched sample of 434 (i.e., 217 tax-avoidant and 217 non-tax-avoidant firm-year observations) over the period 2003 to 2009. The study is based on secondary data obtained from Kinder, Lydenberg, and Domini databases. The data were analysed using the logit regression technique. The results showed that a higher level of CSR performance was linked with a lower likelihood of tax avoidance.

Watson (2015) conducted a study titled 'Corporate social responsibility, tax avoidance, and earnings performance'. The sample comprised approximately 1929 firms in the U.S. from 2003 to 2009. The study relied on secondary data. The data were analysed using multiple regression technique. The results revealed that earnings performance mediates the relationship between corporate social responsibility (CSR) and corporate tax avoidance (CTA).

Laguir, Staglianò, and Elbaz (2015) conducted a study titled 'Does corporate social responsibility affect corporate tax aggressiveness?'. The final sample comprised 83 firm-year observations from 24 listed non-financial French firms. The study used secondary data; obtained from Vigeo and Diane's financial databases. The study employed multiple regression techniques to analyse the data. The results showed a positive and significant relationship between the social dimension of CSR and ETR; however, a negative significant relationship between the economic dimension of CSR and ETR. Both the corporate governance dimension and environmental dimension of CSR had no significant relationship with ETR.

3. MATERIAL AND METHOD

The study adopted the *ex-post facto* (causal-comparative) research design; in a bid, to observe events (activities of companies as reduced to figures) after they have occurred (reporting year). The design seeks to explore an issue after it has occurred without interference from the researcher. The population of the study comprised 72 quoted manufacturing firms on the Nigerian Exchange Group (NGX). The study employed the purposive sampling technique and 21 manufacturing companies were purposively selected due to the availability and accessibility of data. The data for this study were obtained from secondary sources. The data were extracted from the annual reports and accounts of the selected companies.

The study employed several techniques to analyse the data. First, descriptive statistics were calculated, which enabled to provision of an overview or description of the variables utilised in the study (Kim, Park, & Wier, 2012). Second, a pairwise correlation analysis is conducted to examine the relationship among the variables. Third, multiple regression is used to validate the hypotheses. All the analyses were performed using the E-Views version 9 statistical software.

3.1 Model Specification

$$ETR_{it} = \beta_0 + \beta_1 CSRD_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 CFO_{it} + \beta_5 GROWTH_{it} + \varepsilon_t \ldots\ldots\ldots\ldots 1$$

$$BTD_{it} = \beta_0 + \beta_1 CSRD_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 CFO_{it} + \beta_5 GROWTH_{it} + \varepsilon_t \ldots\ldots\ldots\ldots 2$$

On the left-hand side are the dependent variables (ETR, BTD, DBTD, and NDTS) of the above specifications; and, on the right-hand side is the main independent (CSRD) variable. The control variables are (SIZE, LEV, CFO and GROWTH) which are included in all two model specifications.

3.2 Description of Variables

To validate a hypothesis it should be converted to an operational level. This process is called operationalization. The Table below

Table 1: Operationalization of variables used to test the hypotheses

Variable	Measurement	Source
ETR	This is a measure of the proportion of profit before tax paid as tax. It is computed as tax paid divided by profit before tax.	Kristiadi, Kurniawati, and Naufa (2020)
BTD	Pretax book income – Current tax expense / Statutory tax rate	Manzon and Plesko (2002)
Firm size	Natural logarithm of closing assets	Abdelfattah and Aboud, 2020; Gulzar et al., 2018; Umobong and Agburuga, 2018; Sari and Tjen, 2017; Van Renselaar, 2016.
Leverage	Total debt over total assets	Abdelfattah and Aboud, 2020; Gulzar et al., 2018; Umobong and Agburuga, 2018; Sari and Tjen, 2017; Van Renselaar, 2016.
Operating cash flow	Net cash from operating activities	Gulzar et al., 2018.
Sales Growth	(Current term sales-Previous term sales)/Previous term sales	Gulzar et al., 2018; Kim and Im, 2017; Laguir, Staglianò, and Elbaz, 2015.
CSR	The index uses a dichotomous approach (0, 1) in measuring the CSR items. The items are as follows (1) Charitable contributions and donations; (2) Scholarship program; (3) Employment of disabled persons (4) Employee and community skill base development; and (5) Employees' social security.	Rahmat and Kustiawan (2018)

Source: Author's compilation (2023)

4. RESULT AND DISCUSSION

4.1 Descriptive Analysis of Data

Table 2: Descriptive statistics of selected dependent variables

	ETR	Total BTD	SIZE	LEV	GROWTH	CFO
Mean	0.629520	-2.74E+10	1.27E+11	0.410464	391.6885	4.96E+10
Median	0.215845	-4.19E+08	6.59E+10	0.106977	6.399746	7.98E+09
Maximum	7.624883	1.16E+11	6.87E+11	12.95956	29329.08	1.06E+12
Minimum	0.000000	-3.68E+11	1.04E+08	0.000000	-100.0000	-4.27E+10
Std. Dev.	1.044168	8.94E+10	1.57E+11	1.409647	2715.669	1.07E+11
Observations	168	168	168	168	168	168

Source: E-Views 9

The table above shows the mean value of the selected proxies for corporate tax avoidance the average value of the effective tax rate is approximately 0.63; the average value of total BTD to approximately negative N27 billion. The table above shows the mean value of the average asset for the firms in the sample to approximate N127 billion and that of cash flow from operation to approximate N50 billion. The standard deviations of SIZE and GROWTH both exceeded the mean, indicating high deviations from the mean value respectively. The average value of LEV was 0.410; indicating that the capital structure of the firms in the sample was approximately 41% financed by Debt. The average value of GROWTH was approximately 391.7% for firms in the sample. The magnitude of the relationship is determined by the absolute value while the sign indicates the direction of the relationship.

Table 3: Correlation analysis of the study variables

	ETR	Total BTD	SIZE	LEV	CFO	GROWTH
ETR	1.000000					
Total BTD	-0.119222	1.000000				
SIZE	-0.009820	-0.100541	1.000000			
LEV	-0.114104	0.052244	-0.145523	1.000000		
CFO	0.033711	-0.304947	0.273360	0.002659	1.000000	
GROWTH	-0.001016	0.030790	0.009718	0.018138	0.175517	1.000000

Source: E-Views 9

Notes: ETR is Effective Tax Rate; Total BTD is the computed Total Book Tax Difference; SIZE is Firm Size; LEV is Leverage; GROWTH is sales growth; and, CFO is Operating Cash flow.

The correlation results from Table 3 show that ETR was negatively correlated with Total BTD. The cash ETR also negatively correlated to the following control variables; SIZE, LEV, and GROWTH but positively correlated with CFO. Total BTD positively correlates with LEV and GROWTH; while negatively correlated with SIZE and CFO. The variable SIZE negatively correlated with LEV but positively with CFO and GROWTH. LEV positively correlated with CFO and GROWTH. CFO positively correlated with GROWTH.

4.2 Test of Hypotheses

4.2.1 Hypothesis One

Ho_1: There is no significant effect of social responsibility disclosure on the effective tax rate.

Table 4: Analysis output for hypothesis one (Panel EGLS (Cross-section weights))

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.237149	0.446882	-5.006127	0.0000
CSR	-0.175060	0.066135	-2.647017	0.0089
SIZE	0.123125	0.023788	5.175987	0.0000
LEV	0.012501	0.008777	1.424306	0.1563
CFO	5.74E-13	3.44E-13	1.670541	0.0967
GROWTH	6.09E-06	3.27E-06	1.862880	0.0643
Weighted Statistics				
R-squared	0.259961	Mean dependent var		0.816377
Adjusted R-squared	0.237120	S.D. dependent var		0.951016
S.E. of regression	0.915854	Sum squared resid		135.8836
F-statistic	11.38146	Durbin-Watson stat		1.256944
Prob(F-statistic)	0.000000			

Source: E-Views 9

4.2.1.1 Interpretation

The R-squared value is 0.259 for the weighted statistics; and, the adjusted R-squared value .237. These values describe the proportion of variance in the dependent variable explained by the independent and control variables. Thus, the model explains approximately 24% (i.e., adjusted R-squared value to account for sample size) variation of the dependent variable. The F-statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) is used to check the statistical significance of the model. The value of the statistic was 11.381 ($p < .05$); thus, the hypothesis that all the regression coefficients are zero is rejected. Both the F-statistics and adjusted R^2s for the regression suggest that the overall model is a good fit and explains most of the variations in cash effective tax rate. The *coefficient* and *t-statistic* of our variable of interest (CSR) are negative and statistically significant [*t-statistic* (-2.647017), *p* (0.0089, <.05)]; thus, the alternate hypothesis is accepted and null rejected. Therefore, "There is a significant relationship between social responsibility disclosure and cash effective tax rate."

Davis, Guenther, Krull, and Williams (2016) on a sample of US firms found evidence suggestive of the fact that CSR and taxes act as substitutes rather than complements. This is consistent with the study by Ortas and Álvarez (2020) using cross-country data found evidence of a negative relationship between CSR (corporate social, environmental and governance performance) with tax avoidance; Abdelfattah and Aboud (2020) in Egypt showed a significant negative effect of the effective tax rate on CSR disclosure; while, Kristiadi, Kurniawati, and Naufa (2020) in Indonesia found a non-significant negative effect of CSR on ETR, but when reversed ETR had a significant negative effect on CSR. Karlberg (2020) using a sample of industrial firms in the U.S.A. found a non-significant negative effect of CSR on cash ETR using the OLS. Makni, Affes, and Trigui (2019) on a sample of firms from the European Union reported a negative statistically significant effect of CSR on ETR at 1%. Specifically, the economic, environmental, social and corporate governance performance dimensions were negative and significantly related to ETR.

Rahmat and Kustiawan (2018) in Indonesia reported a non-significant negative effect of CSR on ETR. Gulzar et al. (2018) using a sample of Chinese firms listed on the Shenzhen and Shanghai stock exchanges showed that CSR is negatively related to current and cash-effective tax rates (proxies of corporate tax avoidance). van Renselaar (2016) in the U.S. showed that CSR had a negative effect on the effective tax rate. Also in Indonesia, the study by Sari and Tjen (2016) on a sample of non-financial companies listed on the Indonesian Stock Exchange showed that CSR disclosure level had a significant negative effect on tax aggressiveness (i.e., current ETR).

Lanis and Richardson (2012) in Australia showed a negative and statistically significant association between CSR disclosure and tax aggressiveness. In the Nigerian context, Umobong and Agburuga (2018) on a sample of manufacturing firms showed that ETR negatively related to CSR for poverty alleviation activities. Similarly, Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017) found a negative relationship between CSR performance and tax avoidance. Contrary to this the study by Vacca, Iazzi, Vrontis, and Fait (2020) in Italy found a non-significant positive effect of tax aggressiveness on CSR reporting; while Alsaadi (2020) using empirical data from Europe found a positive association between CSR and tax avoidance. A reverse effect was reported in the study by Mashuri and Ermaya (2019) in Indonesia which showed that ETR has a significant positive effect on CSR disclosure. As documented by Col and Patel (2019) firms hedge against potential negative consequences of tax aggressiveness via an increase in positive CSR activities. Lin, Liu, So, and Yuen (2019) found a positive association between corporate culture (CSR) and tax risk. Shafai, Amran, and Ganesan (2018) in Malaysia showed that earnings management and tax avoidance positively correlate with corporate social responsibility. However, Marta, Barros, and Sarmento (2019) found no statistical evidence of an association between corporate tax avoidance and CSR; while, Lin, Liu, So, and Yuen (2019) concluded from the empirical analysis that firm reputation mediates the effects of CSR on firm performance and firm risk.

4.2.2 Hypothesis Two

Ho_2: There is no significant effect of social responsibility disclosure on the book-tax difference.

Table 5: Analysis output for hypothesis two (Panel EGLS (Cross-section weights))

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.08E+09	1.56E+10	0.197139	0.8440
CSR	8.19E+08	1.60E+09	0.510744	0.6102
SIZE	-2.51E+08	7.17E+08	-0.350225	0.7266
LEV	3.20E+08	5.73E+08	0.558548	0.5772
CFO	-0.165940	0.053307	-3.112905	0.0022
GROWTH	631795.7	414394.6	1.524623	0.1293
	Weighted Statistics			
R-squared	0.145441	Mean dependent var		-2.30E+10
Adjusted R-squared	0.119066	S.D. dependent var		6.35E+10
S.E. of regression	6.22E+10	Sum squared resid		6.28E+23
F-statistic	5.514311	Durbin-Watson stat		0.881469
Prob(F-statistic)	0.000102			

Source: E-Views 9

4.2.2.1 Interpretation

The R-squared value is 0.145 for the weighted statistics; and, the adjusted R-squared value .119. These values describe the proportion of variance in the dependent variable explained by the independent and control variables. Thus, the model explains approximately 12% (i.e., adjusted R-squared value to account for sample size) variation of the dependent variable. The F-statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) is used to check the statistical significance of the model. The value of the statistic was 5.514 ($p < .05$); thus, the hypothesis that all the regression coefficients are zero is rejected. Both the F-statistics and adjusted R^2s for the regression suggest that the overall model is a good fit and explains most of the variations in book-tax difference.

The *coefficient* and *t-statistic* of our variable of interest (CSR) are positive and statistically not significant [*t-statistic* (0.510744), *p* (0.6102, >.05)]; thus, the alternate hypothesis is rejected and null accepted.

This is consistent with studies by Abdelfattah and Aboud (2020) in Egypt which found that temporary book-tax differences (BTD) had a significant positive effect on CSR. Makni, Affes, and Trigui (2019) on a sample of firms from the European Union also reported a positive statistically significant effect of CSR on BTD at 1%. Specifically, the study by Makni, Affes, and Trigui (2019) showed that the economic, social and corporate governance performance dimensions were positive and significantly related to BTD. However, contrary to this the study by Kim and Im (2017) in Korea found that CSR had a negative significant effect on BTD and tax savings. The results were also consistent for high and low CSR firms (i.e., active-CSR and passive-CSR firms).

CONCLUSION AND RECOMMENDATIONS

The study concludes that social responsibility disclosure affects tax avoidance of quoted manufacturing firms in the Nigerian Stock Exchange (NSE). The findings from empirical data analysis showed a significant effect of social responsibility disclosure on the cash effective tax rate; and, a non-significant effect of social responsibility disclosure on the book-tax difference of quoted manufacturing firms. The study makes the following recommendations:

1. Policymakers (and regulatory bodies) should formulate policies that safeguard firms' investors from the potential reverse effect of corporate social responsibility expenditure on tax avoidance;
2. Managers should develop models that factor in CSR externalities into share price valuation; alternatively, CSR activities may be used as a way of promoting risk management to enhance a firm reputation. Managers may hedge against potential negative consequences of tax avoidance from an increase in CSR-related activities.

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