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CORPORATE GOVERNANCE AND TAX ETHICAL BEHAVIOUR OF LISTED NIGERIAN COMPANIES

DASHE, AWOENA FELIX; ABDULMUTTALIB MOHAMMED BELLO; & DAWAM AMBROSE MOSES

Business Education Department, Federal College of Education Pankshin, Plateau State, Nigeria.

ABSTRACT

Over the years tax compliance in Nigeria has been a challenging economic reality due to harsh and volatile business environment. This paper is designed to examine the effect of corporate governance and ethical tax behaviour of list listed companies in Nigeria from 2015 to 2020. The descriptive research design was employed and 57 listed firms on the Nigeria stock exchange were sampled based on firms whose financial reports and tax returns files were available and accessed for this study. Corporate mechanism data was sourced from published financial

Introduction

According to a report by the national bureau of statistics, Federal inland revenue service (FIRS) generated the sum of ₦864.72 billion as company income taxes in the first half of the year 2021, representing a 57.8% achievement rate compared to the annual CIT projected revenue of ₦1.49 trillion (NBS, 2021). Nigeria's corporate tax increased by 21. 5% and 23.95% compared to ₦711.73 billion and ₦697.71 billion recorded in H2 and H1 2020 respectively. Corporate taxes generated by the government has recorded significant increases in recent time signalling diversion of government's attention from oil revenue sources to other important sources. Despite an increase in Nigeria's tax collection, her tax to GDP ratio remains one of the lowest in the world (World Bank, 2022). At 8% of GDP in taxes (PWC, 2022), Nigeria must increase her revenue collection to meet basic need of citizens and make growth sustainable especially in the context of COVID 19 recovery plan.

As tax authorities intensify effort to maximise tax collection, corporations have been scrutinized for their tax behaviour. Stakeholders have expressed their concern over corporate tax unethical behaviour that allow corporations to pay ridiculous amounts of tax year in year out. Although national governments and international institutions are developing initiatives to reform tax rules to ensure that companies pay their "fair share" of tax, tax framework still offers corporations several opportunities for minimizing their tax burden. To help businesses, self-regulate their behaviour in those "grey areas" where the tax law is imperfect and

reports of the sampled firms while tax compliance data were extracted from the tax returns file submitted to FIRS by the sampled firms for the research period. The study measures tax ethical behaviour in terms of timely filing of tax returns form, completeness of tax returns, and accuracy in income declaration on a scale of 0-3. In each year codes 1, 2 or 3 were used to score ethical tax behaviour depending on the extent of compliance. Otherwise, 0 is scored for noncompliance. The regression analysis was done and the fixed and random effect variant of the regression model for panel data was applied to the data using E-View statistical software. The findings supports the hypothesis that large proportion of independent directors in the management structure decreases tax sharp practices and increases tax ethical behaviour. The result implies that independent board members play a front role in deciding whether a firm engages in tax unethical behaviour or not. The study recommends that corporate entities should maintain moderate board size, use internationally recognised audit firm, encourage managerial ownership and engage investors as independent directors.

Keywords: Corporate governance, Taxation, Ethical behaviours, Revenue

to drive changes in legislation, corporate taxation has recently been included in the business ethics field. In other words, the ethical responsibilities associated with corporate taxation have started to be investigated and companies are increasingly expected to exhibit a morally responsible approach to filing tax returns and completing tax returns, above and beyond compliance with the letter of the law.

The tax compliance literatures have over the years indicated that so many factors –including economic, socio-psychological and demographic –usually come into play in determining individual compliance decision (Devos, 2012). Besides, individual compliance behaviour also differs from one country to another and from one individual to the other (Kirchler, 2007). The resultant effect is that, today, there exists a 'cobweb' of factors that are considered as affecting taxpayer behaviour with regards timely filing of tax return, completeness of tax returns and accuracy of tax returns, and the decision of whether or not to pay taxes.

Emerging paradigm have emphasized the link between firms' corporate governance mechanisms and their responses to taxes as one of such factors. Desai & Dharmapala, 2009; Desai, Dyck & Zingales, 2007; Desai, Dharmapala & Fung, 2007 pointed out that corporate governance plays important role in affecting firms' responses to changes in corporate tax rates. The studies found out that the underlying governance arrangements constitutes the major driver for tax aggressive behaviour of management. Those studies argued that when governance is weak, tax aggressiveness will tend to occur but will be reduced if governance is strong. Sound corporate governance is essential for increasing investor confidence, protecting stakeholders such as lenders, borrowers, staff, and the government and complying with supporting tax laws (Muka, 2010).

In most contexts, raising revenues requires an efficient and effective tax system (World Bank, 2019). But standard policy measures for improving taxpayer compliance – such as reforming legislation and administration – may not be enough. They may also be time-consuming or infeasible due to technology infrastructure, limited resources, and political constraints. A thorough understanding of human behaviour and how individuals interact with policies and programs can provide creative and cost-effective solutions to these challenges (OECD, 2021). In fact, according to Jost & Patrick (2019) interventions that consider human behaviour help individuals and firms better process information, make decisions, and submit their tax declarations accurately and on time and help tax administration officials improve the way they do their job.

There is already a considerable literature about corporate governance and tax behaviour for example Jost & Patrick (2019) reviewed recent literature (79 articles) on the impact of corporate governance and tax avoidance. They found out that CG limits tax avoidance. However, for most part, this literature is focused CG and tax compliance (Shamsuddin et al, 2011 and Yinka et al, 2022) and CG and tax sharp practices such as tax avoidance, tax aggressiveness and tax evasion. The unsettled area in the literature is the debate regarding how CG influence tax ethical indices in Nigeria such as timely filing of tax returns, completeness of the tax returns and accuracy in income declaration. The research in this area is bedevilled with paucity of studies paying attention to the search for relationship between CG and tax ethical behaviour. This research took a different approach from previous studies by looking at some aspects of CG in relation to tax ethical behaviour that had been very insufficiently examined by foreign and local studies. Hence, ignoring the relationship between CG and tax ethical behaviour is a gap.

Distinguishing and describing the recorded patterns of tax noncompliance and finally finding ways to reduce it, are clearly a dominant feature of state governments around the world. The economics of tax compliance can be viewed as a problem of public finance, law enforcement, organisational design, labour supply, ethics, or a combination of all of these.

Research objectives

The broad objective of this research is to examine the effect of corporate governance and ethical tax behaviour. While the specific objectives are listed below:

1. Examine the extent to which independent directors affect ethical tax behaviour.
2. Investigate whether board size affect ethical tax behaviour.
3. Find out if board ownership has a relationship with ethical tax behaviour.
4. Examine the extent audit committee affects ethical tax behaviour.

Hypotheses of the study

H_{O1}; Board independence directors has no significant impact on ethical tax behaviour
H_{O2}; Board size has no significant impact on ethical tax behaviour
H_{O3}; Board ownership has no significant impact on ethical tax behaviour
H_{O3}; Audit committee has no significant impact on ethical tax behaviour

LITERATURE REVIEW

Corporate governance

Anandarajah (2004) opined that there is no universally accepted definition of what the term-corporate governance means, as numerous definitions have evolved owing to the multi-dimensional nature of the concept. A common assertion of most corporate governance definitions

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implies a mechanism targeted to minimize problems generated by the separation of ownership and control (Wells, 2010). Corporate governance according to Cadbury (1992) is a system by which companies are directed and controlled. It consists of two components: corporate which refers to corporations and governance which refers to the act, fact or manner of governing (Lanno, 1999). Ruin (2001) stated that corporate governance is a group of people getting together as one united body with the responsibility to direct, control and rule with authority. On a collective effort, the body is empowered to regulate, determine, restrain, curb and exercise the authority given to it. Olusanmi and Iyoha (2015) corporate governance is seen as a system or an arrangement that comprises a wide range of practices (accounting standards, rules concerning financial disclosure, executive compensation, size and composition of corporate boards) and institutions that protect the interest of a corporation's owners. According to Hopt (2011), the evolution of the concept of corporate governance has had trends, theories and models which have been picked up by commentators and researchers. The direction and control are the two cornerstones of the corporate governance system which characterize the system to be either shareholder or stakeholder oriented. In other words, it encompasses several mechanisms that serve to protect shareholders' interests and reduce agency conflicts arising from the separation of ownership and control such as board independence, proper audits, nomination and remuneration committees: as well as capital structure and dividend pay-out policies (Fatimoh, 2012). It can be seen also as the sum of processes, structures and information used for directing and overseeing the affairs of an organization (Sanda, Mikailu & Garba, 2005). Therefore, firms with a better corporate governance quality incur fewer agency conflicts.

In Nigeria, the legal and regulatory framework for the observance of corporate governance was secured through a combination of voluntary and mandatory mechanisms such as the Companies and Allied Matters Act 2004 as amended, Investment and Security Act 2007, Securities and Exchange Commission 2011, Corporate Governance Code and various industry specific governance codes. The Atedo Peterside led committee on corporate governance was commissioned by the Securities & Exchange Commission in Nigeria. It resulted in the publication of the 2003 SEC Corporate Governance Code and presently, a revised SEC Code of 2011. Industry specific Codes were published by the regulators for companies under their domain. They included CBN Codes 2006 for banks and other financial institutions, PENCOM Codes 2008 for pension fund administrators and NAICOM Codes for insurance companies.

Corporate governance practices, regulations, and models differ from country to country. Generally, these corporate governance models are divided into two types based on different systems of corporate ownership (Aguilera & Jackson, 2010). The first is the outsider model, and the second, the insider model. According to the above research, notable examples of the outsider model of corporate governance are found in the US and UK. Therefore, the outsider model is also known as the Anglo-Saxon model. The insider model of corporate governance is found in Europe and the Asia-Pacific region. This model is also known as the Continental European model.

Ethical tax behaviour

Conceptually, Ethics is simply the study of what is good and bad, right and wrong, just and unjust. Ethics are the moral principles that an individual uses in governing his or her behaviour-the personal criteria by which an individual distinguished "right from wrong" (Adifila, 2022). Therefore, a society without ethics would face both chaotic and integrity questions. Tax ethical behaviour is a recent phenomenon in the tax world. It had begun to be studied recently in countries like Germany, Europe, America etc. It is defined as a set of existing and accepted norms, values and beliefs in a society that serves as a model of conduct for determining the proper tax compliance (Gonzalez, 2020). Alarcon (2018) argues that moral and tax consciousness have been mentioned as a similar concept but have differentiating elements. Ethical tax behaviour can be viewed from two angles: from both the taxpayers and tax authority. Ethical tax behaviour of taxpayers is the main thrust of this research. Therefore, tax ethical behaviour is acting or conforming to accepted tax standards of conduct, (Gelin & Billard-Moalic, 2019). Companies must pay their fair share of taxes to contribute to the society growth and development. In other word, tax authorities should generate adequate tax revenues, to promote welfare of the citizens, deliver public services and build physical and social infrastructure for long-term growth. The relevant tax authorities have the power to assess taxes; Collection of revenues; Property seizures; Adjustments and fines on tax declarations; Payment (and delays) on tax returns; Closure of business activities, etc. Abuse of these powers can create severe damage to the civil rights of the taxpayer (Kommer, 2009). Ethical tax behaviour of tax authorities are guided by a code of conduct, to avoid any professional or business activity that may create a conflict between personal interests and the duties of the tax authorities. Kommer (2009) established that code of conduct is mainly based on the following principles: Fairness and equity, Transparency, Integrity and Accountability. The taxpayer's perception has been viewed from different angles. Firstly, taxpayer's attitude of being greedy that want to maximise their income and show no civic responsibility or duty to the government; secondly, absence of punitive measures and control which supposed to serve as a good check on taxpayers. The taxpayers have it in mind that they could avoid paying tax without being caught by the tax authorities in Nigeria. The tax structure and wasteful government spending had demoralised them in paying taxes, which also motivated them to evade tax payment. The major tax obligations arising from tax laws in Nigeria include: Tax registration; Filing of tax returns; Payment of taxes due including minimum tax; Tax collection agent; Withholding tax obligation; Duty to disclose; and Duty to keep books of account. Majorly, a lot of non-compliance behaviour was as a result taxpayer's perception of not being treated fairly and also feel that wasteful spending of tax revenue by the government, (Alm & Torgler, 2012).

Theoretical review

Theory of Plan Behaviour

Icek Ajzen proposed this theory (Theory of Planned Behaviour) in 1985 through his article "From intentions to actions." The theory suggests that people are much more likely to enact particular behaviour when they feel they can enact them successfully. This theory is based on behavioural intention, which is anchored on three main factors; the behavioural belief- attitude towards the behaviour, the subjective norm- perceived expectations and perceived behavioural control- control beliefs (Ajzen, 1993). The goal of the theory of planned behaviour is to provide a comprehensive framework for understanding the determinants of such behaviours. The attitude aspect of the

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theory considers the individual evaluation of favourableness and unfavourableness of an attitude object. Based on the behavioural aspect of this theory, it underpinned this study.

Empirical review

Empirical studies focusing on corporate governance and variables such as tax avoidance, evidence, planning, aggressiveness; Ajueyitse, 2021 and compliance; Shamsuddin et al, 2011, salaudeen, 2022 have been carried by so many researchers. However, in Nigeria, studies on corporate governance and tax ethical behaviour of listed companies have remained majorly unravelled empirically. In a nutshell, there has been paucity of research specifically focusing on corporate governance and ethical tax behaviour of listed firms in Nigeria. However, Okoye and Akenbor (2010) did investigate the effect of accounting policies on corporate tax planning in Nigerian listed firms. The first weakness of the study was that it examined the effect of accounting policies on corporate tax planning only. Another weakness of the study was that it was just a research survey of opinion structured questionnaire without empirical analysis from the company's financial data. Also, in kiabel and Akenbor (2014) study on tax planning and corporate governance in Nigerian banks, the focus was centred on corporate governance using ordinary least square method.

Olufemi et al (2022) examined the impact of tax ethical behaviour on tax compliance of tax authority and corporate taxpayers of some listed manufacturing firms in Nigeria. The study exploited proxies such as tax fairness, tax compliance and tax responsibility. The analysis was conducted using correlation analysis, analysis of variance and multiple regression. The governance structure of the listed firms that exhibit most of the tax behaviour was not included in the study and the proxies used in the study looked ambiguous.

Yinka & Saliu (2022) analysed corporate governance mechanism and tax compliance of listed firms in Nigeria. 79 selected listed firms for the inclusion in the sample. Data for corporate governance attributes were extracted from the annual reports of the sample firms and those of the tax compliance indices were extracted from their files with the tax office. Based on the result of the Hausman test, the fixed-effect model was used as a basis for the discussion of findings. Findings suggest that managerial ownership and non-executive director have significant positive relationship with tax compliance. Board size has a negative relationship while the effects of gender diversity, auditor profile, ownership concentration, and institutional ownership are not significant. The data extracted from companies' files might not be a true reflection of the tax compliance or behaviour of the selected sample. This to large extent can water down the outcome of the research.

Flora and Taina (2020) examined behavioural nudges and tax compliance sao Paulo. We tested five different behavioural informed letter through a randomized control trial with 15,178 property taxpayers already in debt with the city of São Paulo. The best performing letter, the Consequences Letter, increased the regularization rate in 4.07 percentage points (52.53%, in comparison with 48.46% in the control group), which stands for an 8.4% increase.

Ehassan et al (2021) explores the relationships among voluntary tax compliance behaviour of individual taxpayers with selected economic, social, behavioural and institutional factors. This individual tax compliance behaviour is studied through the multi-perspective lenses of the theory of attribution, equity theory, expected utility theory, and social exchange theory. Quantitative design using the survey method was employed to collect data from 435 individual taxpayers through questionnaire. For testing linkage between constructs, through mediation and moderation tests, structural equation modelling technique was used. The results suggest that tax compliance simplicity has a larger impact on tax filing than perception about Government Spending and tax morale.

METHODOLOGY

The descriptive research design was employed for this research and it is based on the opinion of Kumar (2019) who stated that descriptive design is used to discover and measure the cause and effect of existing interaction between variable in a construct. It also allows researchers to collect a very high number of in-depth information from the population. The population of the study comprises of 177 listed firms on the Nigeria exchange group. The sample size comprised of 57 listed firms on the Nigeria exchange group. The sample size constitutes only firms whose financial reports and tax returns files were available and accessed for this study. Corporate mechanism data was sourced from published financial reports of the sampled firms for five years (2015-2020) while tax compliance data were extracted from the tax returns file submitted to FIRS by the sampled firms for the same number of years. The study measures tax ethical behaviour in terms of timely filing of tax returns form, completeness of tax returns, and accuracy in income declaration on a scale of 0-3 as in Akhand (2015). In each year codes 1, 2 or 3 were used to score ethical tax behaviour depending on the extent of compliance. Otherwise, 0 is scored for noncompliance.

The regression framework is applied to guide findings and conclusion. The choice of regression is because of the focus of this study on the association between tax ethical behaviour indices and corporate governance mechanisms. The fixed and random effect variant of the regression model for panel data is applied to the data using E-View statistical software. These variants of regression model for panel data allows for the inclusion of the often unobserved time invariants, cross-sectional and temporal (i.e. time) dimension into the data.

Descriptive statistics and panel regression technique were used to analyse the data. A multiple linear regression model was developed to predict the level of tax ethical behaviour proxied by timely filing of tax returns, completeness of tax returns and accuracy in income declaration using three independent variables. These variables include audit quality, independent directors, board ownership. The ß coefficients for each independent variable generated from the model was subjected to a z –test, in order to test each of the hypotheses. The regression model used to test is shown below:

$TEB_t = \beta_0 + \beta 1BSZ + \beta 2AUQ + \beta 3IND + \beta 4BOW + \mu$

Where: TEBt is tax ethical behaviour indices,

$\beta 0$=fixed intercept,

β_1-β_4 = board size, audit quality, independent board, and board ownership, while

I = number of firms in the study; t = time; and μ = the error term.

DATA ANALYSIS

Table 1 shows the descriptive statistics for the variables and as observed, TEB has a mean value of 0.409 with a standard deviation of 0.231. Board size has an average value of approximately 9 which implies that the average board size for the sample is 9 members. The mean for AUQ index, IND and BOW stood at 0.7, 0.658 and 0.146 with a standard deviation of 0.523, 0.160 and 0.202 respectively.

TABLE I: DESCRIPTIVE ANALYSIS

	Mean	Median	Maximum	Minimum	Std. Dev.	Jarque-bera
TEB	0.4085	0.6	0.609	0	0.231	783.641
BSZ	8.955	9	19	4	2.515	257.704
AUQ	0.7	1	1	0	0.523	119.862
IND	0.658	0.67	0.782	0	0.16	75.443
BOW	0.1458	0.03	0.84	0	0.2015	257.704
Source: Researchers compilation (2020) using Eviews 9.						

From table II, the correlation between TEB and independent variables is examined. As observed, BSZ and IND though weak is positively correlated with TEB with a coefficient of 0.008 and 0.071 respectively. On the other hand, AUQ has a strong positive correlation with TEB with a coefficient of 0.165 while BOW has a weak negative correlation with TEB with a coefficient of -0.06.

TABLE II: CORRELATION MATRIX OF DEPENDENT AND INDEPENDENT VARIABLES

	TEB	BSZ	AUQ	IND	BOW
TEB	1				
BSZ	0.008	1			
AUQ	0.165**	0.175**	1		
IND	0.071	-0.008	-0.004	1	
BOW	-0.06	-0.110*	-0.09	-0233**	1
Source: E-Views version 9					

A. Diagnostic Result.

The multi-collinearity test in table III indicates that there is no case of multicollinearity because the variance inflation factor (VIF) and the tolerance value of the conditions tested are below five (5) and above 0.1.

TABLE III: VARIANCE INFLATION FACTOR (VIF)

Coefficients (a)		
Model	**Collinearity Statistics**	
	Tolerance	**VIF**
BSZ	0.853	1.078
AUQ	0.827	1.209
IND	0.969	1.031

BOW	0.81		1.22
a. Dependent Variable: TEB			
Source: E-Views version 9			

In order to avoid spurious result, stationary test was carried out to ensure none of the variables are stationary at order of integration two [I (2)]. From the result, it was revealed that TEB and IND were found to be stationary at I(0), while BSZ and BOW were stationary at I(1). The results of the unit root test are presented in table iv. The result of 3 estimators out of four used in table v shows that the residuals and the predictor variables to be uncorrelated at 1% significance level.

TABLE IV: UNIT ROOT RESULT

Variables	Levin, Lin & Chu test	Im, Pesaran & Shin W-stat	ADF-Fisher Chi-square	PP-Fisher Chi-square	Remarks
TEB	0.000	0.0103	0.2109	0.0271	Stationery@ Level I(0)
BSZ	0.000	-	0.0000	0.0000	Stationery@ Diff. I(1)
IND	0.000	0.000	0.0017	0.0000	Stationery@ Level I(0)
BOW	0.000	0.000	0.0000	0.0000	Stationery@ Diff. I(1)
Source: E-Views version 9					

TABLE V: SERIAL CORRELATION TEST

Test	Statistic	d.f.	Prob.
Breuseh-Pagan LM	4186.94	3081	0.0000
Pesaran scaled LM	13.08231		0.0000
Bias-corrected scaled LM	3.207307		0,0013
Pesaran CD	0.693185		0.4882
Source: E-Views version 9			

B. Fixed Effect Result

The fixed-effect model in table IV shows a weak positive effect of audit quality (AUD) on Tax ethical behaviour (TEB) with a magnitude of 0.568409(Prob. 0.1595). Independent directors and board ownership proved to have a robust positive effect on tax ethical behaviour with a magnitude of 0.011026(Prob. 0.027) and 0.02685 (prob. 0.0721), while board size has a weak negative effect, with a magnitude of -0.009519 (Prob. 0.7782). Furthermore, the fit statistics (i.e., R2, Adj. R2, f-test) shows that the model fit is strong as the independent variables explained 0.40 or 40% of the variance in tax compliance at less than 1% significance level.

TABLE VI: FIXED EFFECT				
Variable	Coefficient	Std. error	t-statistic	prob.

TEB	0.65021	0.75618	0.85986	0.391
BSZ	-0.0091	0.03376	-0.282	0.778
AUQ	0.56841	0.40305	1.41029	0.159
IND	0.01103	0.00495	2.2272	0.027
BOW	0.02685	0.01488	1.80467	0.072
Source: Eviews 9				

R2: 0.45759
Adjusted R2: 0.30838
F-statistics: 4.02811
P-value: 0.000000

C. Hausman Specification Result

The Hausman test of specification validity in the table above indicates a significant P-value, indicating the fixed effect model is appropriate.

TABLE VII: HAUSMAN TEST				
Variable	Fixed	Random	Var(Diff)	Prob.
BSZ	-0.0095	-0.00345	0.00077	0.827
AUQ	0.56841	0.002996	0.00004	0.556
IND	0.01103	0.007451	0.00001	0.262
BOW	0.02685	0.000042	0.00021	0.066
Chi-Square Statistics 11.9324				
Probability 0.0766				
Source: E-Views version 9				

DISCUSSION OF FINDINGS

The study has found an empirical evidence to affirm that board ownership encourages management to work hard and increase performance. As a result, enhance ethical tax behaviour. This result reiterates of stimulating managers to judiciously guiding shareholders' financial and non-financial interests in a corporation of which he is one (Boussaidi & Hamed, 2015). The study supports the hypothesis that large proportion of independent directors in the management structure decreases tax sharp practices and increases tax ethical behaviour. The result implies that independent board members play a front role in deciding whether a firm engages in tax unethical behaviour or not. This finding is consistent with the agency theory (Alegrini & Greco 2013). Findings from the research also shows that board size has negative relationship with ethical tax behaviour. Companies are unlikely to exhibit tax ethical behaviour with large board size. Audit quality though favourable is not strongly supported. The findings contrasted Aliani & Zarai (2012) and Ftouhi (2013).

CONCLUSION AND RECOMMENDATIONS

In light of the findings of this study, corporate entities should maintain a moderate board size, use internationally recognised audit firm, encourage managerial ownership and engage investors as independent directors. The recommendation arises due to the need to facilitate quality and timely decision-making, board efficacy, and compliance with tax law provisions and authority. Furthermore, the study recommends that tax authorities should be more aggressive in performing their duties to collect taxes and corporations should fulfil their responsibilities as tax payers with the spirit of contributing their piece of wealth to the people through ethical tax behaviour.

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