AMERICAN JOURNAL OF ECONOMICS AND BUSINESS MANAGEMENT

ISSN: 2576-5973
Vol. 5, No. 10, 2022

Effect of Managerial Ownership and Tax Aggressiveness on Financial Performance of Domestic Systematically Important Banks in Nigeria

Udochukwu Godfrey Ogbonna, PhD
Associate Professor, Department Of Management Sciences, Rhema University, Nigeria

Uniamikogbo Emmanuel, PhD
Senior Lecturer Department of Management Sciences, Rhema University, Nigeria

Ezeji Amblessed Mmesoma
Department Of Management Sciences, Rhema University, Nigeria

Abstract: This study examined the effect of managerial ownership and tax aggressiveness on financial performance of deposit money banks in Nigeria. The secondary source of data collection method was employed using the annual reports and accounts of the Six (6) D-SIBs for the period spanning 2012 to 2021. The variables of interest in this study were managerial ownership and tax aggressiveness (independent variables), proxied by number of shares owned by managers and effective tax rate respectively while leverage was used as a control variable for the robustness of the specified model in the study. Financial performance (dependent variable) was proxied by return on equity. Data harvested from the annual reports and accounts were analyzed using the descriptive statistics and econometric techniques. The panel data technique was employed in the econometric analysis with the aid of E-view 9.1 statistical software. The outcome of the study revealed that tax aggressiveness and leverage have significant influence on financial performance of the selected banks in Nigeria. However, while tax aggressiveness had a negative effect on the financial performance of D-SIBs in Nigeria, leverage had a positive influence on the financial performance of D-SIBs in Nigeria. Conversely, managerial ownership had an insignificant effect on the financial performance of selected D-SIBs in Nigeria. The study, therefore, recommends that banks may need to drive policy that focuses on expansion of assets to create more value for the banks. Additionally, banks may seek to increase other ownership structures that can directly enhance performance over time. Finally, Nigerian banks may need to expand its operational efficiency to ensure that returns on equity are steadily improved.

Keywords: Managerial ownership, Tax aggressiveness, Leaverage, Tax avoidance, effective tax rate.

1. Introduction

Over the years there has being an increased interest and focus amongst policy makers and regulators on the banking sector, this is because of the pivotal role the banking sector plays as catalyst of development and growth in a nation's economy. Economic crises are likely to result from any form of dysfunctional

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

conduct in the banking industry, which is crucial to the distribution, circulation, and mobility of capital (Albertazzi & Gambacorta 2014). Additionally, according to Komolov, banks play a significant role in the growth of tax revenue as aggregaters of capital flows in the economy (2015). Banks cannot properly function without an effective and efficient management in place. Managerial ownership has been adjudged to be of significant effect to financial performance of banks following the fact that they own a percentage share of the entity they manage. Managerial ownership can be viewed as the percentage of shares owned by management who actively participate in corporate decisions in deposit money banks. Some studies have shown that managerial ownership has no effect on the financial performance of firms in Nigeria (olufemi, olaniyi & soetan 2016). Other studies i.e. Ruan, Tian and Ma (2011) have shown that managerial ownership has a positive and negative effect on the financial performance of deposit money banks in Nigeria. Thus, a rise in managerial ownership promotes better decision-making and higher business value by bringing together the interests of shareholders and insiders. On the other side, once management ownership of equity reaches a certain point, increasing managerial ownership may give managers enough stock to follow their own interests without worrying about harming the value of the company. The agency problem can be greatly reduced when managerial ownership reaches a significant high level since the interests of managers and shareholders are fully aligned. Therefore, the relationship between management ownership and financial performance is non-linear (McConnell & Servaes 1990; Cho 1998; Morck, Shleifer & Vishny 1988). Syed and Biswas, (2020) reported that managerial ownership is both a blessing, and a curse, considering the value of shares owned by the managers of these banks, which can relatively influence the financial performance of deposit money banks.

A company's entire standing in areas including assets, liabilities, equity, costs, revenue, and overall profitability are all evaluated in detail by its financial performance. Various business-related formulae that allow users to calculate precise information about a company's likely efficacy are used to measure financial performance. For internal users, financial performance is analyzed to determine, among other benchmarks, the health and footing of their specific companies. A company's entire standing in areas including assets, liabilities, equity, costs, revenue, and overall profitability are all evaluated in detail by its financial performance. Various business-related formulae that allow users to calculate precise information about a company's likely efficacy are used to measure financial performance. For internal users, financial performance is analyzed to determine, among other benchmarks, the health and footing of their specific companies. There are six key ratios that are widely utilized in the business sector to help and assess a company's overall performance when assessing financial performance. They are; Gross Profit margin, Working capital, Current Ratio, Inventory Turnover, Leverage, Return on Assets, and Return on Equity. However, Return on Equity was used as a measurement indicator for Financial Performance. Return on Equity (ROE) is a profitability statistic used to evaluate the efficiency of equity, which generates returns for investors. A higher return on equity implies that investors are making money more effectively, which is advantageous to the company as a whole. Thus, the more profitable the banks are, the higher the amount of tax paid to relevant tax authorities.

According to Anyanwu (2007), tax is a legitimately required, non-returnable financial contribution to the government made by private individuals, institutions, or organisations (or sporadically in exchange for goods and services). It may result in a fine based on wealth or income or notify of price increases. Taxes are obligatory contributions that are levied against people for governmental general purposes (Famoyin 1990). Once levied, every taxable person must pay tax. He also added that taxes are benefit, used for providing the government with funds necessary for the general administration of the country. The government does not impose taxes on a citizen just because it has provided him or his family with certain services. Appah (2010) posits that good tax structure plays a significant function in the process of economic development of any nation, of which Nigeria is not an exception. Taxation being an outflow

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

from the banks' income (profit), it reduces the amount of revenue that accrues to the bank. Thus, for banks to reduce the level of tax liability paid to the Government, they engage in tax management also known as Tax aggressiveness.

Tax aggressiveness is the establishment of a strategy or arrangement with the primary goal of avoiding taxes (Braithwaite, 2005). The goal of tax aggressiveness, which managers employ as a strategy, is to maximize profits once all of the company's obligations to the state and other stakeholders have been paid. It consists of a number of activities, decisions, resources, and processes. Tax aggressiveness therefore, refers to the aggressive side of tax avoidance practices (Francis, Hasan, Wu &Yan, 2014). Tax aggressive practices are usually implemented to minimize the tax burden to achieve greater after-tax earnings per share and cash available for shareholders (Lanis & Richardson, 2012). Taxpayers are therefore always looking for strategies to reduce the tax burden. Many businesses have used various ways to lower their tax liabilities in an effort to reduce the amount of corporation tax that is due. However, aggressive tax also leads to significant costs and benefits for management and a reduction in cash flows available to the company and shareholders (Desai & Dharmapala, 2008). Khurana and Moser (2013) and Lanis, Richardson, and Taylor (2015) assert that tax aggressiveness can be substituted with tax avoidance, tax planning and tax sheltering. According to Olarewaju and Olayiwola (2019), virtually all companies are rational to the extent that they want to pay less tax and benefit from the tax savings on their tax liability. They argued further that this quest is informed by the fact that shareholders' wealth maximization remains the fundamental objective of any profit-oriented business outfit and that can only be archived by minimizing cost and tax burden on their profit. Among important strategies used by companies in reducing their tax burden legally is 'tax planning'. Tax planning depicts the ability of a company to legally reduce its tax obligations through the utilization of different loopholes in the tax system. According to Salawu and Adedeji (2017), the effective tax rate is the appropriate yardstick for tax planning effectiveness which is based on actual average tax payable on a taxpayer's income before tax, as distinct from the statutory tax rate imposed on taxpayers. Tax planning, according to Olarewaju and Olayiwola (2019) refers to an arrangement that involves competent financial dealings within the boundaries of the law to reduce tax liability.

Effective tax planning can increase the financial performance of a firm or entity. Tax liability can be reduced when the management has a percentage ownership in the shares of the firm. This is because, the aim of the managers will be shareholders' wealth maximization which will make them employ aggressive methods of tax avoidance thereby leading to an increased financial performance of the firms. Therefore, managerial ownership and tax aggressiveness work hand in hand in increasing the financial performance of Domestic Systematically Important Banks in Nigeria (D-SIBs).

Managerial ownership is the percentage of shares owned by the managers of a firm. The main aim of managers in a firm is to maximise shareholders wealth. This can only be achieved by boosting the firm's financial performance. One of the measures firms may deploy to improve her financial performance is through tax aggressiveness. Tax aggressiveness is when a firm takes advantage of the loopholes in the tax laws to reduce it's tax expense or liability. Managers who own a percentage of shares in a firm would strive hard to boost firm's financial performance in order to maximize shareholders' wealth. This is because as owners of the firm, their investment is also at stake. Therefore, managers who also act as owners of firms are in a better position to reposition the firm finances by encouraging aggressive tax to increase the financial performance of the firms. Tax aggressiveness employed by managers who are owners of firms could reduce the revenue attributable to the government. Therefore, managerial ownership of a percentage of shares in an organization may lead to an increase in the profitability of a firm and a reduction in the revenue accruable to the government.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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Several studies have been conducted on managerial ownership with emphasis on tax avoidance and firm financial performance in Nigeria, managerial ownership and profitability of corporate entities in Nigeria, tax planning and performance of non-financial entities in Nigeria (Nwaobia, Kwarbai & Ogundajo, 2016, Adejumo & Sanyaolu, 2020, Kayode &Folajinmi, 2020). More so, most of the studies found in this area were developed economies based with none considering the Nigerian environment. To the best of the researcher's knowledge, this is the first study to examine managerial ownership, tax aggressiveness and financial performance of Domestic Systematically Important Banks in Nigeria. Furthermore, prior related studies reviewed in this subject area do not cover up-to-date period, thus, may not be relevant in taking management decisions in a contemporary day economy. It is on this premise that this study seeks to examine the effect of managerial ownership and tax aggressiveness on financial performance of Domestic Systematically Important Banks in Nigeria for the period spanning 2012-2021, using country's specific data with a view to validating existing studies.

2. Literature Review

2.1. Conceptual Framework

A concept is an abstract idea which forms a basis for learning or argument. In this research, it is a part of the research process where ideas on the subject topic are studied. It is also an analytical tool used for comprehensive understanding of the subject topic for the readers of a research work.

A conceptual framework is used in a research to explain the key concepts or variables and the relationships between them that need to be studied. Conceptual framework is the way ideas are organised to achieve a research project's purpose and explanation is the most common method employed. While a conceptual framework means a researcher's perception about the research problem, it is still an arranged and self-explanatory method drafted for the readers. The concepts employed in this study are managerial ownership, tax aggressiveness, effective tax rate, return on assets and performance. They are discussed below.

2.1.1. Tax Aggressiveness

Hanlon & Heitzman (2010) sees tax aggressiveness as a strategy adopted by firms within the ambit of the law to reduce the firms' explicit tax liability. The terms tax management; tax planning; tax sheltering; and tax avoidance are interchangeably used with tax aggressiveness (Lanis & Richardson, 2011; Tang & Firth, 2011; Minnick & Noga, 2010; Chen, 2010).

Tax aggressiveness can also be seen as a reduction of the present value of tax payments or a strategy of minimizing taxes through legal means by exploring the complexities, technicalities and loopholes in the tax laws. According to Pasternak and Rico (2008), tax is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable within the ambit of the law.

Tax aggressiveness is as old as taxation itself and whenever authorities decide to levy taxes, individuals and organizations try to avoid paying them. This became popular through globalization as the range of opportunities to circumvent taxation grew while simultaneously reducing the risk of being detected. This lends credence to the judgment delivered by a Judge in 1947 in the case of Commissioner vs Newman, when he opted that there is nothing sinister in arranging ones affairs so as to keep taxes as low as possible (Kawor & Kportorgbi, 2014). Hoffman (1961) stated that it is a necessity for firms to understand the prevailing tax laws and apply the laws in a manner that ensures that firms minimize their tax exposure since it makes no economic sense to pay more tax than what the law demands. It is therefore an integral part of financial planning decisions that offer the tax manager and the company an opportunity to mitigate the companies' tax liability and increase on the financial performance of the entity.

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Taxpayers take advantage of the provisions of the tax laws to reduce their explicit corporate tax liabilities such as arranging to take income in the form of lightly taxed capital gains or untaxed fringe benefits rather than as fully taxed wages and salaries (Annuar, Salihu, &Obid, 2014; Dowling, 2013; Rego, 2003). Otusanya (2011) noted that tax aggressiveness is not an unlawful practice which has the effect of reducing government revenues needed for the provision of infrastructures, public services, and public utilities. It is a practice of using the legal exploitation of the tax system to one's advantage to reduce the amount of tax that is payable by ways that are within the law while making a full disclosure of the material information to the tax authorities (Desai & Dhammika, 2006).

2.1.2. Effective Tax Rate

Effective tax rate is the percent of income that an individual or a company pays as tax. The effective tax rate for an individual is the average rate at which its earned income(such as wages) and unearned income (such as stock dividends) are taxed. The effective tax rate for a company is the average rate at which its pre-tax profits are taxed, while the statutory tax rate is the legal percentage established by law.

An average effective tax rate is the ratio of total tax expenses to profit before tax of an organization in a particular accounting period. The average Effective Tax Rate does not accurately capture permanent difference between book and taxable income; hence it is often called a partial measure of non-conforming tax avoidance (Rego, 2003). Many researchers are of the opinion that effective tax rate is a good measure of tax planning.

2.1.3. Managerial Ownership

Managerial Ownership is the proportion of the shares owned by management who are actively involved in corporate decision making by directors and commissioners (Diyah & Widanar, 2009). It is the number of ownership shares owned by management and the board of commissioners divided by the total shares of the company.

According to Christiawan and Targian (2007), managerial ownership is a structure where management also has a percentage of shares in a company. Davies, Hillier and McColgan (2005) also defined managerial ownership as all the members of the board of directors owning shares in the company. Managers are given the opportunity to become shareholders with the expectation that it will result in good performances (Nuringsih, 2005). According to Jensen and Meckling (1976), agency costs will decrease when managerial ownership is increased due to the alignment between the principal and agent which could lead to an increased performance of the organization. On the other hand, managerial ownership can also encourage management to act only for their personal benefit and interest (entrenchment effect).

The relationship between managerial ownership and the financial performance of a firm was explored by previous studies, and mixed results were obtained. According to several studies, management ownership improves business performance because it lowers the expense of coordinating managers' and shareholders' interests (Francis & Smith, 1995). According to Francis and smith (1995), managerial ownership reduces the problem of management shortsightedness as higher management ownership leads to stronger improvement and increased productivity with the long run effect of the increase in the value of firms. In other studies, the relationship between financial performance and managerial equity holdings were examined by a simultaneous equation system and the findings were that managerial ownership does not boost the financial performance of an organization rather financial performance hurts managerial ownership (Loderer & Martin, 1997). Fama and Jensen (1983) also suggest that a large managerial shareholding can generate additional costs. A manager has a significant voting power that excludes shareholders from having real influence over how a business is run. As a result, management ownership's effect on business performance is complex (Hu & Izumida, 2007). (2008).

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2.1.4. Financial Performance

Financial performance which accesses the fulfillment of a firm's economic goals has long been an issue of interest to managerial researchers. The effectiveness with which a company may use its resources from its principal mode of business to make a profit is related to numerous objective assessments of the firm's financial success. It relates to the financial well-being of an organization. Firms' performance addresses among the capacity of the organization in terms of profitability, gearing, solvency, liquidity, and growth opportunities among other things. According to Eyenubo (2013), the success in meeting pre-defined objectives, targets, and goals within a specified time target is financial performance.

A firm's success is expressed by its performance over a certain period of time. The benefits received by shareholders of an entity from their ownership of shares of a corporation determine its performance or value. Companies that have a high share value are considered to be financially successful. Such highly valued companies draw a lot of investors, which will boost their chances of continuing to grow. An entity's financial performance can be measured to provide management with important data that can be used to track performance, report progress, boost morale, improve communication, and identify issues (Waggoner, Neely & Kennerley, 1999). Accordingly, the performance of a company is assessed with the interest of the company in mind. The definition of what constitutes an organization's performance, however, is inconsistent. Researchers are working to make measuring an entity's performance a key concept. The ability to compare performances over multiple time periods is made possible by finding a measurement for the firm's performance. No specific measurement with the ability to measure every performance aspect of an entity has been proposed to date (Snow & Hrebiniak, 1980). However, related literatures measures performance using any of these three indicators namely: return on equity, return on asset and profit before tax. In this study, return on equity was used to measure financial performance of D-SIBS in Nigeria.

2.1.5. Return on Equity

Return on equity indicates how well management is employing the investors' capital invested in the company. It reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the statement of financial position. Since equity represents the owners' interest in the business, their investment is fully at risk compared to other sources of funds supporting the firm. This is so because shareholders are the last in line if the going gets rough. Therefore, equity capital carries the highest risk premium compared to other sources of funding, making it generally the most expensive. Its implementation is essential to the company's survival and success. The leadership of every firm must therefore make the most critical executive choice on capital allocation or deployment. By measuring how much earnings a company can generate from equity, an indicator of profit-generating effectiveness is return on equity. Businesses with a track record of operating profitably often have a competitive edge, which typically translates into better returns for investors. The relationship between the company's profit and the investor's return makes ROE a particularly valuable metric to examine. ROE offers a useful signal of financial success since it indicates whether the company is growing profits without pouring new equity capital into the business. A steadily increasing ROE is a hint that management is giving shareholders more for their money, which is represented by shareholders' equity. ROE is calculated by taking the profit after tax given year and dividing it by the book value of equity (ordinary shares) at the beginning of the year. Average equity can also be used. Equity would consist of issued ordinary share capital, plus the share premium and reserves.

The ROE can therefore be enhanced by improving profitability, using assets more efficiently and increasing financial leverage. ROE has flaws as a measure of performance. Wet de and Toit (2007) posit

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under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

that one of the flaws of ROE is that the firm earnings can be manipulated legally within the framework of Generally Accepted Accounting Practice (GAAP) through changes in accounting policy. The second problem is that ROE is calculated after debt costs but before own capital costs are taken into consideration. As long as the returns on the borrowed money outweigh the cost of the borrowings, ROE rises as financial gearing increases. Beyond a certain point, rising financial gearing carries the inherent risk of increasing financial risk, which could result in a decline in firm value and share price. Pursuing a higher ROE may lead to wealth destruction, which is not in line with the economic principles of shareholder value creation. Rappaport (1986) noted out that the second component of ROE, (asset turnover) is affected by inflation in such a way that it may increase even when assets are not better utilized. His reasons that sales immediately reflect the impact of inflation, whereas the book value of assets, which is a mixture of new and older assets, does not adapt as quickly to the effects of inflation.

2.1.6. Leverage

Financial leverage is a measure of how much a firm uses equity and debt to finance its assets. It indicates the level of the debt of a firm to its total asset. As debt increases, financial leverage increases. Management tends to prefer equity financing over debt since it carries less risk (Matt, 2000). Financial leverage takes the form of a loan or other borrowings (debts), the proceeds of which are re-invested with the intent to earn a greater rate of return than cost of interest. An unleveraged firm is an all-equity firm, whereas a leverages firm is made up of ownership equity and debt (Andy, Chuck & Alison, 2002).

Leverage allows a greater potential for risks and returns to the investor than it would have been available. Similar to this, Pandey (2010) claims that a corporation uses financial leverage to increase returns on fixed-charge funds over their costs, the return on the owners' equity will increase (or fall) depending on the surplus or deficit. The rate of return on the owners’ equity is leveraged above or below the rate of return on total assets. Research works have been carried out in order to identify the influence of leverage on the financial performance of companies, but with mixed conclusions.

Some researchers argue that leverage is negatively correlated to financial performance debt requires more resources to pay the debt (Asimakopoulos, Samitas, &Papadogonas, 2009; Al-Jafari and Samman, 2015). However, others are of the opinion that additional debt can be implemented in a good investment, which will increase financial performance (Burja, 2011; Humera, Maryam, Khalid, Sundas, & Bilal, 2011). Financial leverage is thus viewed as having two sides because it both has the ability to increase shareholders' profits and increases their danger of financial loss.

2.2. Theoretical Framework

In this section, the researcher discussed two theories that are relevant to tax aggressiveness and managerial ownership; the political power theory and the agency theory. While political theory explains the effect of political economy on tax avoidance, the agency theory explains the relationship between managers who are entrusted with the control of an entity and investors who are the owners of the firm.

2.2.1. Agency Theory

Agency theory has been widely used in literature to investigate the information inequality between principals (shareholders) and agent (management). It is based on the relationship between the principals or owners of the firm and the agents or managers (Elhelaly, 2014).

According to Jensen and Meckling, (1976), conflicts between firms’ owners and their managers may arise because managers who are generally expected to make tax-effective decisions may behave opportunistically and divert corporate wealth for their private benefits. The separation of ownership and control in modern corporations is considered the root cause of the agency problem (Fama& Jensen, 1983)

ISSN 2576-5973 (online), Published by “Global Research Network LLC"
under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

as it is argued that the agent does not always act and perform its duties in the best interests of owners. To reduce agency problem, Abdul-Wahab, (2010) suggests that, managers (agents) should be properly observed by the shareholders, this could result to an incurement of extra cost by the shareholders. This cost is referred to as agency cost (Jensen & Meckling, 1976, Fama& Jensen 1983).

Agency costs include monitoring expenditure by the principal (e.g. auditing, compensation, operating rules and budget restriction), bonding expenditure by the agent and residual loss. Managerial ownership could reduce agency cost in an organisation. This is because managers who have ownership shares in a company could work according to the interest of the shareholders and less cost will be used for monitoring their activities. The reduced cost could therefore lead to an increased financial performance of the company.

Managers could also work to this effect to reduce the level of tax paid by the company. Tatu, Dragota, and Vintila (2010), Crocker and Slemrod (2005), Chen and Chu (2005), were the first to view corporate tax planning within an agency framework. Tatu et al (2010) argue that, managers try to reduce their accounting profit by making expenditures that are not tax deductible. Complex tax avoidance transactions, according to Desai and Dharmapala (2006), can give management the means, cover, and justifications for opportunistic managerial behaviors like earnings manipulation, related party transactions, and other resource-diversion practices. In other words, tax avoidance and managerial ownership can be complementary as the reduction of tax could lead to a win-win for both the managers and the owners of the business. This can therefore result in an increase in the financial performance of the business.

2.2.2. Political Power Theory

From a political economy perspective, tax burden could be linked to company size. Political power theory maintains that larger firms possess superior economic power relative to small firms (Siegfried, 1972). Due to their extensive financial resources, larger businesses are able to engage in proactive tax planning that effectively reduces their tax bill.

According to Watts and Zimmerman, (1978) large firms are opportunistic in manipulating the political principles for the enhancement of their after tax returns. Nicodème (2007) posits that large firms have the resources to engage in aggressive tax planning and manipulate the political process in their favour. In some studies it was found that small businesses may suffer in terms of average cost of capital because they cannot benefit from economies of scale. On the other hand, because they are more mobile and have a higher influence on employment when entering or exiting a market, large enterprises may have more political power to negotiate their tax load, notably through trade unions. Domestic systematically important banks are considered large banks in Nigeria.

Robert and Bobek (2004) examined corporate political lobbying efforts during the six-month period that led to the passage of the Taxpayers Relief Act 1997. Robert and Bobekfound significant lobbying by firms and targeted PAC contributions to legislators and political parties in positions to make policy recommendations that were to their benefit. This suggests that, firms engage in political activities to influence their tax accounting laws. Dyreng, Hnlon, and Maydew (2008) report that, long-run tax avoiders are larger firms. This theory of political power is premised on the prediction that large companies face lower effective tax rate (Siegfried, 1972). On the other hand, the political cost argument (Watts and Zimmerman, 1978) contends that large businesses will ultimately shoulder a heavier share of the tax burden due to the high visibility and control.

Numerous empirical researches have been motivated by ambiguous outcomes. The amount of the Company's effective tax rate has been directly estimated by several authors. Siegfried (1972) estimated such a link in the United States and discovered a negative correlation between size (measured by assets)

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and effective taxes, even if the findings appeared to be impacted by the prevalence of large enterprises in some sectors. His findings are in line with the notion of political power, and Pocarno discovered a similar connection (1986). However, such a negative association is at odds with the research of Watts and Zimmerman (1978), who used American data from 1948 to 1981, the top fifty companies, incurred much higher tax rates in 1971, supporting the political cost theory. In other research, using total assets as a proxy for business size, Gupta and Newberry (1997) for the United States and Janssen and Buijink (2000) for the Netherlands found no conclusive evidence of a relationship.

The political power theory believes that, large firms possess political power and economic resources and thus have the capacity to hire professionals to formulate and implement corporate strategies with tax planning inclusive.

2.3. Empirical Review

Suleiman and Nasamu (2021) examined the effect of ownership structure on the financial performance of listed oil and gas companies in Nigeria for the period of (2006-2019). Secondary data was extracted from the financial reports and accounts of the sample companies. Robust OLS as the best estimator of the regression model was used to analyze the data extracted. The findings revealed foreign ownership has a positive significant impact on the financial performance of oil and gas companies in Nigeria. Based on the findings, the study recommends that, foreigners should be allowed to take most of the ownership structure of listed oil and gas companies in the downstream sector of the petroleum industry in Nigeria, more so, management of these companies should formulate policies that would boost the number of shares allocated to foreigners since foreign ownership increases financial performance.

Joel, Oluwaseun and Grace (2020) examined the effect of the ownership structure and its dimensions (such as managerial ownership, employee ownership and private ownership) on the financial performance of eighteen food and beverage quoted firms on the Nigerian Stock Exchange (NSE) during the period 2010-2018. The study analyzed secondary data on return on equity, employee ownership, private ownership, and management ownership (MO), among other topics (ROE). These were from the annual reports and financial statements of the companies considered in the study. Pooled regression, fixed effect regression, and random effect regression were used to analyze the data. The findings demonstrated that managerial ownership had a negligible (positive) impact on return on equity ($t=1.63$; $P=0.329$; $P>0.05$). Employee ownership had significant positive effect on return on equity ($t=2.19$; $P=0.001$; $P<0.05$). Private ownership had significant effect on return on equity ($t=3.2$; $P=0.005$; $P<0.05$). Managerial ownership, employee ownership and private ownership had a significant combined effect on return on equity (Wald Chi2=32.91; $R2=0.682$; $P=0.000$). The study concluded that ownership structure had a significant effect on the financial performance of quoted food and beverage manufacturing firms in Nigeria. The study recommend that Stock Exchange Commission as a regulatory body should encourage potential managers to invest more in any company in the food and beverage industry to enable them manage the firm well as their funds are invested in the firm.

Bamigboye and Akinadewo (2020) examined how ownership structure affected the dividend policy of a few Nigerian banks. In the study, secondary data were used. The information came from the Central Bank of Nigeria statistical bulletin, the Nigerian Stock Exchange's "fact book," and the banks' audited financial reports. Out of the mentioned banks, ten (10) DMBs were specifically chosen based on the size of their client base and length of operation. Percentages, randomness, and the fixed effect approach were used to examine the data. According to the study's findings, the Nigerian banking sector's dividend policy is significantly influenced by ownership structure. The study suggests that concentrated block holders and even the government invest in dilution of the ownership structure, which is defined by manager-ownership

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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and institutional owners, to lessen the agency problem in the Deposit Money Banks in Nigeria. To incentivize investors, management can accomplish this by regularly distributing dividends.

Abdullahi and Muhammad (2019) examined the effect of ownership structure on financial performance of listed commercial banks in Nigeria for the period 2009-2016. This study used a sample of 13 listed commercial banks in conducting the study. In addition to using panel data regression models, the study also used the Ordinary Least Square (OLS) and Generalized Least Square methods to analyze the data. According to study results, ownership concentration (OWC) has a negligible impact on return on assets (ROA). However, the findings revealed that OWC had a statistically significant beneficial impact on financial performance as measured by the market-based performance indicator Tobin's Q (TBQ). The analysis's findings showed that management ownership (MOW) positively affects ROA and TBQ while being statistically insignificant. The results showed that institutional ownership (INSOW) has a statistically significant negative impact on TBQ but a statistically minor negative impact on ROA. Due to its potential benefit in enhancing market-based financial performance in Nigerian banks, the study advises that financial regulatory bodies in the country, including the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and Securities and Exchange Commission (SEC), should make sure that a reasonable degree of ownership concentration is maintained by all banks. The CBN must develop policies that encourage participation of foreign institutional ownership in the Nigerian banking sector in the case of institutional ownership.

Yakubu, Danjuma and Adejoh (2019) investigate how institutional ownership affects the financial performance of listed Nigerian building material companies. The population of the study consists of six (6) firms that were publicly traded on the Nigerian stock exchange as of December 31, 2016, of which four (4) firms were chosen based on two criteria: the availability of the company's thirteen (13) year annual report and its listing on the exchange prior to 2004. The study uses multiple regressions as a tool for analysis and secondary source of data analysis. The result of the study revealed that institutional ownership impacts positively significantly on financial performance of quoted building materials firms in Nigeria. According to the study's findings, institutional ownership has an impact on the financial performance of Nigerian building material companies. It was suggested that the Security and Exchange Commission should encourage potential institutional investors to make long-term investments in the building material sector.

Atu, Uniamikogbo and Atu (2018) examined the effect of firm attributes on tax aggressiveness in Nigeria using secondary data which comprised fifteen (15) DMBs from 2013-2017. They applied the OLS regression method. According to their findings, profitability had a non-significant impact on tax aggression in Nigeria, whereas business size, leverage, and liquidity had substantial impacts. They suggested that rather than maximizing income or enforcing strict tax compliance rules, tax authorities' primary priority should be on fostering a tax culture among the populace.

Omodero and Ogbonnaya (2018) examined linkage between corporate tax and profitability of deposit money banks in Nigeria from 2006 to 2016. Multiple regression analysis and a t-test result revealed that corporation income tax had a favorable and significant impact on the profit after tax of Nigerian deposit money institutions.

Ogbeide (2017) examined firm characteristics and tax aggressiveness of listed firms in Nigeria using pool and panel data for the period 2012 to 2016. The annual reports of the chosen companies were the source of the data. The data obtained was analyzed using both the panel and dynamic panel approaches. The study's conclusions showed that tax aggression was significantly and favorably influenced by firm size. Tax aggressiveness and leverage have a substantial negative association.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

Irianto, Sudibyo and Wafirli (2017) examined the factors that affected company's tax avoidance. They used several factors such as size, leverage, profitability and capital intensity. The purpose of the study was to determine the influence of firm size, leverage, profitability and capital intensity ratio on tax avoidance in manufacturing companies listed on the Indonesian Stock Exchange from 2013-2015. The population taken as the object of observation amounted to 156 manufacturing companies listed on the Indonesian Stock Exchange in the period 2013-2015. The determination of the sample was made through purposive sampling method and it obtained a sample of 36 manufacturing companies based on certain criteria. The results showed that size positively influenced the effective tax rate while leverage, profitability and capital intensity ratio did not significantly influence the tax avoidance.

Dharma and Ardiana (2016) analyzed the effects of the manufacturing enterprises listed on the Indonesian Stock Exchange's leverage, fixed asset intensity, size, and political connections. The findings demonstrated that tax evasion was positively impacted by leverage and fixed asset intensity. Political ties negatively and insignificantly affected tax avoidance, while size negatively affected tax avoidance.

2.4. Gap in Related Literature

The gap in literature that motivated this study is that no prior research has been undertaken to examine the effect of managerial ownership and tax aggressiveness on financial performance of DMBs in both developed and developing economies globally. To the best of the researcher's knowledge, this is the first study of its kind to be conducted in Nigeria and across borders.

3. METHODOLOGY

3.1. Data Collection/Sampling

The population of this study consists of fourteen (14) Deposit Money Banks (DMBs) in the financial sector, whose shares were listed in the Nigerian Exchange Group (NGX) for a period of 10 years (2012 to 2021). However, six(6) Domestic Systematically Important Banks(DSIB) were chosen through a purposive sampling technique using secondary data from the Nigerian Exchange Group (NGX). The exclusion of non-financial sector is consequent on the fact that banks and insurance companies have special regulations guiding their operations. The six deposit money banks chosen are as listed below:

Table 3.1: Sampled Six Domestic Systematically Important Banks in Nigeria

S/N	BANK NAME	S/N	BANK NAME	S/N	BANK NAME
1	Guaranty Trust Bank Plc	3	Eco Bank Transnational Inc	5	Access Bank Plc
2	Zenith Bank Plc	4	FBN Holdings plc	6	United Bank of Africa plc

Source: Central Bank of Nigeria (2021)

3.4. Method of Data Collection

The data collected, presented, analysed and discussed in this study were from secondary sources. The secondary data were derived from the audited annual reports of selected domestic systematically important banks listed in the Nigerian Exchange Group (NGX) for a period of 10 years (2012-2021). The data generated from the audited annual reports and accounts of the sampled banks were used to estimate the effects of effective tax rate, leverage and managerial ownership (Independent variables) each on return on equity (Dependent variables), using the time series data of the selected banks. The econometric technique adopted in the analysis of the study is the multiple regression technique. The result of the multiple regression technique was used in testing the research hypotheses formulated.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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3.6. Model Specification

This study adapts the model presented below:

$TQ_{it} = \beta_0 + \beta_1 EBI_{it} + \beta_2 FEE_{it} + \beta_3 COM_{it} + \beta_4 FET_{it} + \beta_5 OPI_{it} + \beta_6 FSIZE_{it} + \beta_7 FAGE_{it} + \varepsilon_{it}$.

This model was modified to capture the study variables (return on equity, managerial ownership, effective tax rate, and leverage) and it is stated as follows:

$ROE_{it} = \beta_0 + \beta_1 MGO_{it} + \beta_2 TAG_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$

Where:

ROE= Return on Equity

MGO= Managerial Ownership

TAG= Tax Aggressiveness

LEV= Leverage

i (= 1,2,3,…6) is the given deposit money banks

t = Time dimension of the variant

ε = error term

β_0 = the intercept coefficient

β_1- β_3 = the slope coefficients

Also, $\beta_1, \beta_2, \beta_3 < 0$

In order to test hypothesis Four, the Granger causality test is used. This test helps to determine the direction of causality between two variables (in this case between ROE and MGO and between ROE and TAG). Three outcomes can be determined from the test. The first outcome is no causality in the case where the test statistics is less than the critical value. The second case is unidirectional causality, and the third case is bi-directional causality.

4. Presentation And Analysis Of Data

This chapter presents the results, analysis and interpretation of the panel data collected for the purpose of testing the models developed in this study. In line with our methodology, the analysis therefore involves the use of both statistical and econometric methods in order to provide a rich background for the investigation. The statistical tools employed are the descriptive statistics and correlation analysis. The descriptive statistics are used to provide the initial characterization of the data. The econometric analysis extends the statistical analysis with the goal of performing the empirical analysis and obtaining estimated coefficients which are valid enough to test the hypotheses in the study. As explained in the previous chapter, the Panel Data Analysis method is employed in the econometric analysis.

4.1. Descriptive Statistics

Descriptive statistics show the summary of data and other basic characteristics within the series. The annualized summary statistics for the main variables in the study are presented for the sampled firms in the study. Annualised summary statistics for the variables are reported in Table 4.1 below. In the Table, average return on equity (ROE) is 15.9 percent, which is relatively high. With a maximum value of 33.0 percent and a minimum of 2.0 percent, there are extreme return values for the banks over the years. The standard deviation value of 7.19 is however lower than that mean value, which shows that the ROE for the

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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ten banks in the sample appear to be evenly distributed over the years. Average tax aggressiveness measure is 19.17 percent for the banks, with minimum value being 2.0 percent for some of the banks. Given that maximum value is 54.0 percent, it is seen that tax aggressiveness is generally high for the banks in Nigeria. The J-B statistic for the variable passes the significance test at the 1 percent level, suggesting that the probability distribution of the variable is non-normally distributed. Thus, there is high heterogeneity among the various banks in terms of their performance and tax systems.

For the managerial ownership, the average value is 2.54 percent, which shows that a very low proportion of the banks' shares are owned by management. The maximum managerial ownership value is 12.0 percent. Average leverage value was also 82.5 percent, indicating that the firms generally maximise their debt structure in capital formation. This is also confirmed from the low standard deviation value at 13.97, showing that there is less variability in the leverage value among the firms.

Table 4.1: Descriptive Statistics

Variable	Mean	Max.	Min.	Std. Dev.	Skew.	Kurtosis	J-B	Prob.
ROE	15.90	33	2	7.49	0.04	2.46	0.74	0.69
MGO	2.54	12	0.1	3.82	1.63	4.09	29.50	0.00
TAG	19.17	54	2	12.20	1.01	3.47	10.73	0.00
LEV	82.57	92	33	13.97	-2.51	8.07	127.38	0.00

Source: Author's computation

In order to further evaluate the summary of the datasets, the descriptive statistics are further conducted for the individual banks in the sample. The results are shown in Table 4.2. In the Table, it is seen that average ROE is highest for GTBank at 26.8 percent while Eco Bank has the least ROE value at 7.8 percent. This implies that GTBank appears to be the most profitable bank in the sample. In terms of tax aggressiveness, Eco Bank has the highest value at 33.7 percent, while Zenith Bank has the least value at 10.9 percent. In terms of managerial ownership, Zenith Bank has the highest value at 8.87 percent, indicating that Zenith bank has the highest rate of managerial ownership, while First Bank has the least managerial ownership proportion at 0.18 percent. In the same vein, UBA has the highest leverage among the banks.

Table 4.2: Descriptive Statistics for individual banks

BANK	***ROE***		***TAG***		***MGO***		***LEV***	
	Mean	***Std. Dev.***	***Mean***	***Std. Dev.***	***Mean***	***Std. Dev.***	***Mean***	***Std. Dev.***
Access	14.10	2.08	11.80	6.30	1.40	0.70	87.60	2.67
Eco Bank	7.80	4.92	33.70	13.74	2.17	2.26	62.10	25.68
First bank	9.80	5.47	17.60	7.41	0.18	0.11	88.30	1.70
GTBank	26.80	3.33	15.20	2.78	0.19	0.03	81.90	1.52
UBA	15.60	3.13	25.80	15.04	2.40	3.27	90.20	0.92
Zenith	21.30	2.41	10.90	4.25	8.87	4.59	85.30	1.49

Source: Author's computation

The other statistical analysis in the study is the evaluation of the correlation conditions of the variables. The correlation matrix is shown in Table 4.3 where it is seen that a positive correlation exists between ROE and MGO and also between ROE and LEV. This means that profitability of the banks moves in the same direction with managerial ownership and leverage patterns. On the other hand, there is a negative

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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correlation between ROE and TAG, indicating the banks that are more aggressive in the tax management have lower performance over time. The Table also shows that MGO and TAG are negatively correlated, while LEV is also negatively correlated with both MGO and TAG. This implies that for banks with rising managerial ownership, tax aggressiveness tends to decline over the years.

Table 4.3: Correlation Matrix

Probability	ROE	MGO	TAG	LEV
ROE	1.000000			

MGO	0.192060	1.000000		
	0.1415	-----		
TAG	-0.395303	-0.073388	1.000000	
	0.0018	0.5774	-----	
LEV	0.305297	-0.051702	-0.224237	1.000000
	0.0177	0.6948	0.0850	-----

Source: Author's computation

4.2. Empirical Results on the Panel Analysis

We conduct our econometric analysis to test for the particular roles of managerial ownership and tax aggressiveness in predicting the pattern of financial performance among the banks listed in the Nigerian stock exchange within the panel data analysis framework. The standard Hausman for random effects test is used for identifying the time-varying conditions of the panel data used in the study in order to determine the method of panel analysis to be adopted. In other words, the Hausmann test helps us to determine whether to apply the random test or the fixed effects procedure for the analysis. The result of the test is reported in Table 4.4. The Chi-Square statistic for the random sections argument fails the significance test at the 5 percent level (P-value < 0.05), implying that the null hypothesis stating that a random effect exists in the cross sections of the data is accepted. This effectively accepts the random effect result as the best method to capture the relationships in the panel.

Table 4.4: Hausmann test for random effects

Test Summary		**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Period random		0.934	3	0.817
Period random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
MGO	0.3555	0.3533	0.0005	0.9253
TAG	-0.2170	-0.2013	0.0012	0.6454
LEV	0.1371	0.1292	0.0006	0.7380

Source: Author's computation

The static random effects estimate of the effects of managerial ownership and tax aggressiveness on financial performance of the banks is presented in Tables 4.5. In The result, both the OLS estimates and the random effects estimates are shown in order to enhance the robustness of the results. For the OLS estimates, the goodness of fit statistics is essentially impressive, especially given the highly significant F-values (at the 5 percent level) which suggest a significant relationship between the dependent variable and all explanatory variables combined. The adjusted R-squared value is also relatively large (given that the

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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dataset is panel). In terms of the individual impacts of the explanatory variables on ROE, the OLS result shows that the coefficient of MGO fails the significance test at the 5 percent level, while those of TAG and LEV pass the significance test at the 5 percent level. This result shows that only tax aggressiveness and leverage of the banks matter in influencing bank performance in Nigeria. The level of managerial ownership does not have significant impact on ROE of the banks.

Table 4.5: Results of the empirical estimates

Variable	Random effect				OLS		
	Coeff.	t-Stat.	Prob.		Coeff.	t-Stat.	Prob.
Constant	5.756	1.114	0.27		8.192	1.378	0.17
MGO	0.285	1.594	0.12		0.353	1.539	0.13
TAG	-0.096	-2.854	0.01		-0.201	-2.730	0.01
LEV	0.136	3.040	0.00		0.129	2.009	0.05
R-sq	0.172				0.238		
R-sq. (Unweighted)	0.207						
Adj. R-sq.	0.127				0.197		
F-statistic	3.87				5.83		

The results of the estimates shown in the OLS results are however not reliable given that a panel data structure is used in the analysis. In order to correct for this, the random effects estimates are also included. In this result, the adjusted R-squared value is 0.127, while the F-statistics value of 3.87 indicates significance at the 1 percent level. This shows strong relationship between the dependent variable and all independent variables. The major focus of the results is on the coefficients of the explanatory variables which show the impact of the variables on ROE. The result shows that the coefficient of MGO fails the significance test at the 5 percent level, while both TAG and LEV pass the significance test at the 5 percent level. This result shows that managerial ownership does not have significant impact on the performance of the banks (ROE). On the other hand, tax aggressiveness is found to have a negative and significant impact on ROE among the banks. This implies that the more tax aggressive a bank is, the less performance it will exhibit. Leverage has a significant positive impact on ROE of the banks.

4.3. Granger Causality Tests

The fourth objective of the study is to indicate the interactive relationships among managerial ownership, tax aggressiveness and ROE of the banks. Hence, the Granger causality test, which is a test to investigate direction of causality, is used to provide the background for estimating relationships. The results of the Granger causality tests are reported in Table 4.5 below. As is generally the case, the F-test is conducted on the null hypotheses in order to determine the direction of causality between each pair of variables. The rejection of each of the null hypothesis is based on the significance of the F-value for the particular relationship. We focus on the relationships that are of interest in the study (i.e. with respect to managerial ownership and tax aggressiveness). From Table 4.5, the F statistics for causality running from tax aggressiveness to performance, from managerial ownership to performance, and from leverage to performance are all significant at the 5 percent level. The F-values for the reverse hypotheses however fail the test at the 5 percent level. This result shows that while tax aggressiveness granger causes profitaility, [profitability does not granger cause tax aggressiveness. Also, while managerial owvership granger causes profitability, profitablity does not granger cause managerial ownership.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
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Table 4.6: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
MGO does not Granger Cause ROE	54	4.13534	0.0127
ROE does not Granger Cause MGO		0.12767	0.7223
TAG does not Granger Cause ROE	54	2.31325	0.0518
ROE does not Granger Cause TAG		0.00426	0.9482
TAG does not Granger Cause MGO	54	5.67130	0.0083
MGO does not Granger Cause TAG		0.00097	0.9753

5. Summary Of Findings, Recommendations And Conclusion

5.1. Summary of Findings

In this study, the roles of managerial ownership, tax aggressiveness and leverage of Nigerian banking system on particular firm attribute of ROE in the Nigerian banking sector is examined. The aim was to ascertain the In the empirical analysis in the study, a sample of 10 banks were sampled and data obtained covered the period 2010 to 2021, which is quite recent and stimulating. The procedure of the analysis included the application of regression lines as well as estimation based on panel data analysis. Overall, it is shown from the study that tax aggressiveness not only leads to effects on the banking attributes, these attributes themselves tend to explain the behaviour of tax aggressiveness for the banks. The main findings from the study include:

1) That tax aggressiveness has a strong but negative impact on profitability (ROE) of the banks, suggesting that stimulating tax opportunities only tends to reduce the financial performance of banks in Nigeria.
2) That managerial ownership of banks has no significant impact on financial performance of the banks in Nigeria. This implies that raising managerial participation in the stockholdings of banks in Nigeria does not change the financial position of banks in Nigeria.
3) That leverage is a strong factor in the determination of tax aggressiveness by banking sector in Nigeria and that as leverage increases for the banks, tax aggressiveness also increases significantly.
4) That both managerial ownership and effective tax rate variables have significant effects on return on equity of domestic systematically important banks in Nigeria.

5.2. Recommendations

Based on the findings of the study recommendations for policy are outlined. Firstly, the banking system should note that profitability actually declines with a tax policy that favours tax aggressiveness through higher effective tax rates. Thus, the drive for tax policy in the banks should focus on expansion of asset and creating more value for the banks.

Second, the ease for tax evasion and going underground should be limited in the banking sector. This can be done by expanding the tax rate, clarifying tax regulations and compliances with the participants and putting the right systems in place.

Third, there is need for banks to adequately and more efficiently redistribute its ownership structure to move away from more managerial ownership. This study shows that more managerial ownership does not

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 5 Issue: 10 in Oct-2022 https://www.grnjournals.us/index.php/AJEBM

contribute to effective improvement in financial performance of banks. Hence, banks may seek to increase other structure of ownership that can directly enhance performance over time.

The leverage of banks also needs to be boosted over time. This can be done by promoting efficient debt scheduling that will ensure that taxes are more evenly distributed over the period.

Finally, banks in Nigeria must seek to expand its operational efficiency in order to ensure that returns to equity are steadily improved.

5.3. Conclusion

Tax issues constitute strong consideration for businesses in Nigeria, especially in the era of increased drive for more revenue by government. There is often a dilemma for the government in terms of allowing businesses to grow and develop and the collection of taxes. Within the banking system, the issues of taxation are also critical for maintaining systemic balance over time. In this study, it has been shown that tax policy of banks has significant roles in influencing bank performance over time. On the other hand, there is evidence that managerial influences in controlling bank policy do not have strong impact on performance. Overall, there is the need for adequate balancing of both tax aggressiveness and tax structure along with leverage and board activities in order to ensure that the performance of banks is sustained over time in Nigeria.

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