INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN 2278 – 0211 (Online)

An Empirical Assessment of the Nexus between Agency Cost and Tax Compliance in Listed Firms in Nigeria

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Abstract:
Tax compliance in listed firms poses challenges due to the inherent agency problems within the corporate structure that require additional administrative costs, which the company must incur to put the agent in check to achieve organisation targets. This study examined the effect of agency costs on tax compliance in listed firms in Nigeria. A cross-sectional time-series research design was used. The study population was 155 firms listed on the Nigerian Exchange Group (NGX) as of 31st December 2022. The study used 20 firms as a sample size using a purposive sampling technique. Data were obtained from the audited annual financial reports of the firms from 2013 to 2022. Panel data regression (PDR) was used to analyse the collected data. The findings revealed that monitoring costs measured by audit fees, audit specialisation, and ICT investment have an insignificant effect on tax compliance. In addition, the bonding costs measured by board remuneration and employee incentives showed an insignificant effect on tax compliance, while residual loss measured by Employee shareholding does not significantly affect tax compliance. The implication is that the agency cost incurred by the shareholders to reduce agency problems does not significantly affect their tax compliance. However, monitoring costs, bonding costs, and residual loss have negative and insignificant effects on tax compliance. The study concluded that the costs of the agency have no significant effect on tax compliance in listed firms in Nigeria. Firms should explore ways to enhance the effectiveness of monitoring, bonding and residual activities to ensure better alignment with tax compliance objectives.

Keywords: *Agency cost, bonding cost, monitoring cost, residual cost, tax compliance*

1. Introduction

Tax compliance is an issue that has affected most economies of the world. This non-compliance to tax laws and regulations has hampered the growth and economic development of the country where these defaulting companies reside and the valuation and transparency of such firms in the global financial market (Harris et al., 2019). The goals of the companies are to maximise profits and ultimately prosper their owners, which has made them avoid and evade taxes. These taxes paid to the government have an impact on the profit earned. Therefore, companies are looking for ways to make taxes paid less both legally and illegally, as in the case of Panama Papers in 2017, where world public officials, politicians, and the upper middle class hid wealth in a tax haven country that has a low tax rate (Putra et al., 2018). These firms contribute significantly to the country's economic growth and generate substantial tax revenues for the government (Oyedele, 2017). However, ensuring tax compliance in listed firms poses challenges due to the inherent agency problems within the corporate structure that require additional administrative costs that the company need to incur to put the agent in check to achieve organisation targets. Meeting these costs is mandatory, so the companies tend to look for other areas to relieve these costs, leading to tax non-compliance.

Tax non-compliance by firms has resulted in agency costs and legal repercussions, which may damage the reputation of individuals and businesses, leading to loss of trust and potential loss of business opportunities. It may lead to conflicts of interest arise when managers, acting as agents, make decisions that may not align with the best interests of shareholders, the principals (Jensen & Meckling, 1976). Such conflicts can lead to agency problems, including information asymmetry, risk-taking behaviour and moral hazard. These agency problems may affect tax compliance practices within listed firms in that they can create a misalignment of incentives. For example, managers may have an incentive to engage in aggressive tax compliance to maximise short-term profits, even if it involves pushing the boundaries of tax laws.

Recent studies have investigated the relationship between agents and principals in the light of tax compliance in listed firms in Nigeria. They seek to explore the impact of agency problems on tax compliance behaviour and examine the influence of corporate governance mechanisms guided by agency cost. Hartl (2019) identifies the factors affecting tax compliance, understands stakeholders' perspectives and assesses the broader implications of enhanced tax compliance in listed firms. To what extent do agency problems, such as information asymmetry and conflicts of interest (Olowe, 2019), influence tax compliance behaviour in listed firms in Nigeria, and the application of agency cost in corporate governance mechanisms affect tax compliance practices in listed firms in Nigeria? Several studies have been conducted on the relationship between agency theories using agency costs and tax compliance. Studies conducted on agency cost and tax compliance showed that managers try to reduce the amount of tax paid officially so that the amount of tax paid is also small (Putra, 2018).

It was discovered that most of the studies that were conducted focused on the various organs of the company, covering corporate governance, profitability, and ownership structure, among others. This study, however, attempts to evaluate how the agency costs incurred by companies affect the tax compliance efforts of the companies. These costs are mandatory because they must be incurred by the principal (owner) to ensure that the agent (management) works in line with the principal's dictate to achieve the company's desired goals. These costs, according to agency cost, are the Monitoring costs, Bonding costs and the Residual loss.

This study aims to address the costs of agency tax compliance in listed firms in Nigeria. It considers the following variables: employee shareholding, board remuneration, employee incentives, audit fees, audit specialisation, and ICT investment. The broad objective of this study is to investigate the effect of agencies on the level of tax compliance among listed firms in Nigeria. The specific objectives are to identify agency cost and tax compliance in relation to Monitoring costs, Bonding costs and Residual loss.

While agency cost provides a framework to understand the relationship between principals (shareholders) and agents (managers) in organisations, and tax compliance refers to the extent to which firms adhere to tax regulations and reporting requirements, the specific connection between agency cost and tax compliance in listed firms has not been extensively explored (Adesina et al., 2020). It is also concerned with effective corporate governance in establishing the principal-agent relationship (Karlinah et al., 2023). The existing studies on agency cost and tax compliance focused on small and medium enterprises in Nigeria (Ojo et al., 2019; Ongore & Kusa, 2017), and others focused on the financial sector (Usman & Aliyu, 2017; Esa & Hassan, 2016). Recent studies focused on consumer goods companies (Chen & Liu, 2019; Smith & Johnson, 2020) do not adequately address the following gaps: Impact of agency cost on tax compliance.

The findings of this research will have significant implications for policymakers, regulators, and practitioners involved in corporate governance and tax administration in Nigeria. Understanding the relationship between agency cost and tax compliance can provide valuable insights for designing effective governance mechanisms and policies that promote transparency and accountability in listed firms. The study can contribute to a more nuanced understanding of how agency costs influence tax compliance behaviour in listed firms in Nigeria and provide insights that can guide policymakers, managers, and stakeholders in promoting responsible tax practices within the corporate sector.

The other sections of this paper will be as follows:

- Section two will delve into the relevant literature on agency cost, tax compliance, and the link between the two. It will present a conceptual framework.
- Section three will discuss the methodology employed in the study.
- Section four will focus on the data analysis.
- Section five will offer a comprehensive discussion of the results, summarising the key findings and their implications and suggesting avenues for future research.

2. Theoretical Framework

This delves into the review of related articles, theories and gaps identified.

2.1. Conceptual Review

This section will give explanations of the concepts used in the study and the link between the agency cost and tax compliance.

2.2. Tax Compliance

Tax compliance refers to the degree to which individuals and businesses fulfil their tax obligations, both in terms of legal compliance with tax laws and ethical compliance with tax principles (Gunter & Lensink, 2017). According to Benk et al. (2011), tax compliance is people's consent to comply with regulations from tax filing to paying taxes. Gerbing (2016) found a more straightforward definition of tax compliance in the most neutral term to describe the taxpayer's willingness to pay tax. Tax compliance is the complete and timely implementation of tax obligations following the provisions of tax laws. Taxpayers voluntarily and consciously fulfil their tax obligations. The main task is to propagate, educate, monitor, supervise and inspect the observance of tax obligations and prevent and handle acts of tax non-compliance (Inasius, 2015; Kenzel, 2014). It can be understood that taxpayers' tax compliance means that taxpayers fully comply with tax obligations following the law, including activities of tax registration, tax declaration, tax calculation, tax payment, and compliance with other requirements on tax administration as prescribed by law (Manchilot, 2018; Hischer & Mark, 2014; Hung et al., 2022). Tax compliance is defined in a variety of ways. While tax compliance is not a process by itself, Putra and Fathurrahman

(2023) argued that online services would increase taxpayers' satisfaction. Thus, this study believes it could lead to upward movement in tax compliance.

2.3. Agency Theory

Jensen & Mecking (1976) defined an agency relationship as one or more persons (the principal/s) engaging another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. Oliver (1985) posited that agency cost explores the relationships between individuals or groups (principals and agents) who contract with each other to exchange goods, services, or assets. It examines the challenges and solutions associated with monitoring and controlling agents' behaviour to mitigate opportunism and promote goal congruence, while Fama et al. (1983) stated that agency cost is a conceptual framework that examines the relationship between principals and agents in organisations. It focuses on the conflicts of interest that may arise when individuals or entities (principals) delegate tasks or decision-making authority to others (agents). In the context of tax compliance, agency cost can help us understand the behaviours and motivations of taxpayers and tax authorities. Agency costs refer to the potential conflicts of interest and associated expenses that arise when one party, known as the principal, delegates decision-making authority to another party, known as the agent, to act on their behalf.

The concept of agency costs is primarily used in the field of corporate governance to describe the potential misalignment of interests between shareholders (principals) and managers (agents). However, it can also be applied to various other principal-agent relationships in different contexts. In a corporate setting, shareholders are the owners of a company and appoint managers to run the business on their behalf. The managers, as agents, are entrusted with making decisions that will maximise the value of the company. However, their interests may not always align perfectly with those of the shareholders, which can give rise to agency costs (Payne & Petrenko, 2019).

2.4. Monitoring Cost

Jensen (2020) defined monitoring costs as the expenses incurred by principals in overseeing and monitoring the actions of agents to ensure that they act in the best interest of the principals. These costs can include direct monitoring activities, such as performance evaluations and audits, as well as indirect costs, audit specialisation costs and ICT investment costs. Chen et al. (2022) stated that the relationship between agency costs and monitoring costs is that monitoring costs arise as a response to the principal-agent problem, which is the misalignment of interests between the principal and the agent. The principal wants the agent to act in their best interest, but the agent may have incentives to act in their own self-interest. To mitigate this problem, principals incur monitoring costs to observe and control the actions of agents, reducing agency costs (the costs associated with the principal-agent relationship).

2.5. Audit Fees

Audit fees refer to the fees paid to an external audit firm or certified public accountant for conducting an independent examination and evaluation of an organisation's financial statement and internal controls (Hsieh et al., 2020). These fees are associated with the audit engagement, which involves the auditor reviewing the organisation's procedures and systems to ensure compliance with applicable accounting standards, laws, and regulations. Audit fees can vary depending on various factors, including the size and complexity of the organisation, the industry it operates in, the geographic location, and the scope of the audit engagement (Rochmatila et al., 2023). The fees are typically determined based on the effort, expertise, and time required to complete the audit. Audit fees refer to the payment received by auditors for their professional services based on factors such as the complexity of the services, the level of expertise, and many other factors (Permatasari dan Christina, 2018). The audit fee represents the income that the auditor receives in return for services after an audit. Multinational companies and banks in Lebanon prefer to pay large audit fees because they are looking for auditors who can produce quality audits. The audit fee is a proxy with audit fees listed separately from other professional fees in the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (Ardani, 2017).

2.6. Audit Specialisation

Audit specialisation is defined as a concentration of audit services in a particular industry or market segment. A specialist auditor is expected to have more knowledge and expertise in a specific industry, which can lead to higher audit quality (Rijal et al., 2023). Audit specialisation refers to the focus and expertise that auditors develop in specific industries or areas of practice. It occurs when auditors acquire in-depth knowledge and experience in a particular sector, allowing them to better understand the industry-specific risks, regulations, and accounting practices. Overall, audit specialisation can contribute to reducing agency costs by improving audit quality, enhancing the auditor's understanding of the client's industry, and increasing the likelihood of detecting and addressing potential financial reporting issues. However, it is important to balance specialisation with the need for independence and objectivity to ensure the integrity of the audit process and minimise conflicts of interest. Specialisation is an excess of ability possessed by someone in a particular field to do something more carefully and thoroughly than people who do not have specialisation (Ishak et al., 2015). Panjaitan and Chariri (2014) argued that specialist auditors have better knowledge and understanding of the client's business characteristics than non-specialist auditors. Panjaitan and Chariri (2014) and Ishak et al. (2015) opined that specialist auditors influence audit quality because specialist auditors are more likely to detect errors and irregularities.

2.7. ICT Investment

ICT (Information and Communication Technology) investment refers to the allocation of resources towards acquiring, implementing and maintaining information and communication technologies within an organisation. This includes hardware, software, networking infrastructure, and related services (Bahrini & Qaffas, 2019).

2.8. Employee Incentives

Ratsinee (2023) stated that company incentives refer to the various rewards, benefits, or perks offered to employees to encourage and motivate them to perform well and achieve organisational objectives. These incentives can take many forms and are designed to attract, retain, and engage talented individuals while fostering a positive work environment.

Principals typically seek to maximise shareholder wealth and are primarily concerned with financial performance, while agents may have other objectives, such as personal career advancement or job security. These differences can lead to a misalignment of interests, which in turn can result in agency problems, such as shirking, moral hazard, or excessive risk-taking (Okpara et al., 2021). Bonding costs are a mechanism used to mitigate agency problems and align the interests of principals and agents. Bonding costs refer to the expenses incurred by agents to signal their commitment to acting in the best interest of the principals. Dirik and Esen (2020) stated that by incurring these costs, agents provide evidence of their loyalty and competence, which can help to build trust and reduce the information asymmetry between principals and agents.

2.9. Bonding Cost

Bonding costs are a mechanism used to mitigate agency problems and align the interests of principals and agents. Bonding costs refer to the expenses incurred by agents to signal their commitment to acting in the best interest of the principals (Jensen & Meckley, 1976). Dirik and Esen (2020) stated that by incurring these costs, agents provide evidence of their loyalty and competence, which can help to build trust and reduce the information asymmetry between principals and agents. These costs are Board remuneration and incentives.

2.10. Board Remuneration

Bonding costs are expenses incurred by an organisation to secure bonding for its executives or board members. Bonding is a form of insurance that protects an organisation against financial losses caused by fraudulent or dishonest actions committed by its key personnel (Ali, 2020). The purpose of bonding is to provide reassurance to stakeholders and enhance the trustworthiness of those holding important positions within the organisation. When it comes to board remuneration, bonding costs can be a relevant consideration. The extent to which an organisation chooses to bond its board members can vary depending on several factors, including the nature of the organisation, its size, industry, regulatory requirements, and risk exposure. Bonding costs are typically borne by the organisation and can be influenced by the level of compensation provided to board members.

Higher levels of compensation might be associated with increased bonding costs. This is because bonding providers evaluate the risk associated with individuals holding positions of authority and determine the premium accordingly. If board members receive substantial remuneration packages, bonding providers may view them as having greater financial incentives to engage in fraudulent activities, thereby increasing the bonding costs.

2.11. Employee Incentives

Ratsinee (2023) stated that incentives in companies refer to the various rewards, benefits, or perks offered to employees as a means of encouraging and motivating them to perform well and achieve organisational objectives. These incentives can take many forms and are designed to attract, retain, and engage talented individuals while fostering a positive work environment. Principals typically seek to maximise shareholder wealth and are primarily concerned with financial performance, while agents may have other objectives, such as personal career advancement or job security. These differences can lead to a misalignment of interests, which in turn can result in agency problems, such as shirking, moral hazard, or excessive risk-taking (Okpara et al., 2021). Bonding costs are a mechanism used to mitigate agency problems and align the interests of principals and agents. Bonding costs refer to the expenses incurred by agents to signal their commitment to acting in the best interest of the principals. Dirik and Esen (2020) stated that by incurring these costs, agents provide evidence of their loyalty and competence, which can help to build trust and reduce the information asymmetry between principals and agents.

2.12. Residual Loss

This cost represents the potential loss that the principal may incur due to the agent's actions or decisions (Brickley et al., 2017). Residual loss arises because the agent while acting on behalf of the principal, may not fully internalise all the costs and benefits associated with their decisions. As a result, the principal may suffer a loss or fail to maximise their utility. The concept of residual loss highlights the importance of designing incentive mechanisms and contracts that align the agent's interests with those of the principal. By minimising the residual loss, the principal can reduce the potential conflicts of interest and improve the overall efficiency of the principal-agent relationship. Panda and Leepa (2017) stated that residual loss is the key component of agency costs, and it should be reduced by the principals.

2.13. Employee Shareholding

Employee shareholding refers to the ownership of company shares by its employees. Many companies offer employee share ownership plans or stock option programs as a way to align the interests of employees with the company's success and to provide them with an opportunity to share in the company's profits. Under the residual loss concept, employees' shareholding refers to the ownership of company shares by the employees of an organisation (Rahman & Pandey, 2020). It is a practice where employees are provided with the opportunity to acquire shares in the company they work for, either through direct purchase or as part of an employee stock ownership plan (ESOP). The purpose of employees' shareholding is to align the interests of the employees with those of the company and its shareholders. Giving employees a stake in the company's success aims to promote a sense of ownership, loyalty and motivation among the workforce. This can lead to increased employee engagement, productivity, and long-term commitment to the organisation. Employee shareholding refers to the ownership stake that employees hold in a company.

3. Conceptual Framework

The conceptual framework was designed to establish the link between the dependent variable and the independent variables. Tax compliance is the dependent variable proxied by the effective tax rate. The independent variables are monitoring costs, bonding costs, and residual loss proxied by audit fees, audit specialisation, ICT investment, board remuneration, employee incentive, and employee shareholding, respectively.

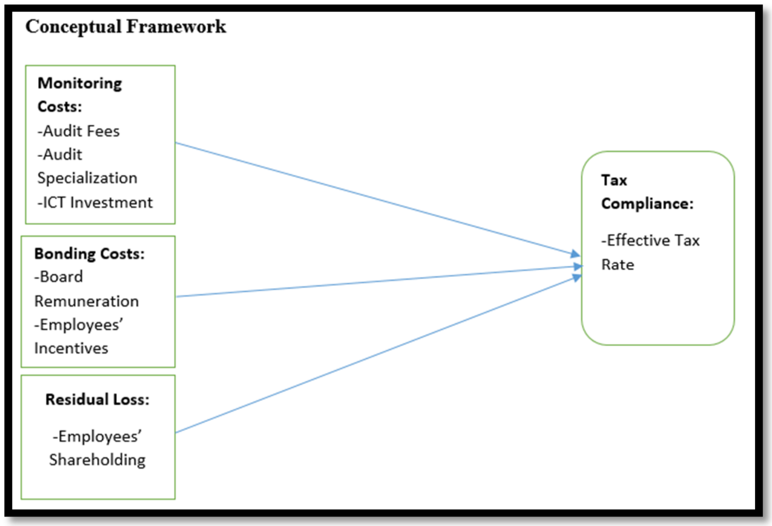

Figure 1: Conceptual Framework Showing the Link between Agency Cost and Tax Compliance
Source: Authors' Design (2024)

3.1. Agency Theory

The theory was formulated by Jensen and Meckling in 1976. Their theory emphasised the inherent conflicts that arise due to divergent interests and goals between principals and agents. They introduced the concept of agency costs, which are the costs incurred in mitigating these conflicts and ensuring that agents act in the best interests of principals. The theory highlighted that agents may have different risk preferences and motivations than principals, leading to potential agency problems. Jensen and Meckling's work explored the relationship between ownership structure, managerial behaviour and agency costs. They proposed that aligning the interests of principals and agents through incentive mechanisms, such as stock options and performance-based compensation, can help reduce agency costs and improve organisational performance. The agency cost tends to provide a generalised framework that may not adequately capture the unique contextual factors and variations across different industries, cultures, and organisational settings. Critics argue that a "one-size-fits-all" approach may overlook the nuances and complexities of specific principal-agent relationships. Despite the criticism that trails the agency cost, it remains relevant to the frameworks for understanding the relationship between agency cost and tax compliance in listed firms in Nigeria.

3.2. Empirical Review

Fatima et al. (2018) investigated if agency cost effectively explains agency conflict in the context of a developing country, namely, Pakistan. The study utilised a qualitative approach for this research and conducted 26 semi-structured interviews, which allowed asking a series of open-ended questions from research participants. Findings showed that in Pakistan, there is no variation in risk preferences of principals (minority shareholders) and agents (majority shareholders). We also found that remuneration packages and board independence are not effective tools for governing owner-managers in Pakistan.

Yavuk (2019) studied factors causing taxpayers not to comply with tax obligations in accordance with Law of the Republic of Indonesia Number 11 of 2016 regarding tax Amnesty. A total of 180 taxpayers who use the Tax Amnesty facility are respondents with purposive sampling criteria, WarpPLS 6.0, as a means of analysing the mediation test's influence on taxpayer awareness of tax compliance with ransom mediation. The results showed that tax awareness and ransom influence tax compliance, and tax awareness affects ransom.

Yinka et al. (2022) examined the effect of good corporate governance attributes on the tax compliance behaviour of listed firms in Nigeria from 2012-2016; 79 selected listed firms met the conditions for 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, and the tax office/ secondary data were used. Findings suggest that managerial ownership and non-executive directors have a 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.

Oladipo et al. (2022) examined the influence of tax fairness on the tax compliance behaviour of listed manufacturing companies in Nigeria. The paper adopted a survey research method, and four hundred (400) copies of the questionnaire were administered to the selected manufacturing companies of both consumer and industrial goods sectors. The study found that there is a significant level of tax compliance among the listed manufacturing companies in Nigeria.

Deden (2019) conducted research to determine investors' reactions to whether company policies comply with tax provisions. With regression and comparative analysis, using secondary data from manufacturing companies in Indonesia in 2013-201 and with a positive reaction to tax non-compliance and negative reaction to corporate tax compliance, it indicates that investors in Indonesia are more concerned with the company's short-term performance in the form of current profits compared to long-term performance in the form of future profits which are likely to be affected by tax penalties arising from tax non-compliance.

Adejuwon et al. (2022) examined the determinants of voluntary tax compliance in Nigeria using a descriptive quantitative survey method. The study concluded that the tax system's perceived marginal benefit, trust in governance, government spending, and government accountability are determinants of voluntary tax compliance in Nigeria.

Doreen (2020) examined the relationship between knowledge requirements, complexity of the tax system and tax compliance in Uganda. The research design was cross-sectional and correlational. A cross-sectional research design analyses data collected from a population at a specific point in time, and results indicate that taxpayers have sufficient tax knowledge to enable them to comply with taxes, but that does not rule out the fact that taxpayers still incur the cost of complying.

Jingyuan (2022) investigated the impact of tax structure on corporate tax compliance using the Chinese industrial enterprise database and prefectural data. The study used regression analysis. The results show that relying more on indirect taxes tends to decrease corporate tax compliance while increasing the ratio of direct taxes to total tax revenues significantly enhances it.

Favourate (2021) examined the informal sector to know about the implicit social contract and their willingness to pay taxes and tax compliance in Zimbabwe. The study adopted a sequential exploratory mixed-method research design, combining both qualitative and quantitative (through the use of document reviews, semi-structured interviews and questionnaires) in order to bring a balanced view, and it was found that tax morale was a strong driver of tax evasion and non-tax compliance in the informal sector.

Sumarno and Yulaeli (2021) examined and analysed the effect of the correlation between the planned behaviour of taxpayers and mediating intention to pay taxes on tax compliance in an effort to encourage the growth of state revenues. This research used SEM-Lisrel as a data analysis method with a total sample of 310 respondents who are individual taxpayers in Bekasi, Indonesia, that have been reported to the 2021 Annual Tax Return. This research found that:

- Taxpayers' planned behaviour can improve tax compliance;
- Taxpayers' planned behaviour will boost the intention to pay taxes;
- Intention to pay taxes can improve tax compliance; and
- The intention of taxpayers could be able to mediate taxpayers' planned behaviour towards tax compliance.

Heang and Yongjin (2021) investigated the theory of planned behaviour (TPB) to investigate the intention of citizens to comply with taxes in Phnom Penh, Cambodia. To examine these determinants, the authors collected survey data from 402 respondents in Phnom Penh in August 2016. Exploratory factor analysis and Cronbach's alpha test were used to check the validity and reliability of the data set, and an ordered logistic regression model was conducted to test the hypotheses. The results confirm that tax morale, tax fairness and tax complexity have a statistically significant influence on the tax compliance intention of the citizens, while the power of authority, trust in government, tax information, and tax awareness do not show a statistically significant relation to tax compliance intention.

Afuan and Osman (2019) examined the factors that influence the compliance behaviour of MSME's taxpayers. The variables refer to the theory of planned behaviour. Attitude towards behaviour, subjective norms, and perceived behavioural control that later influence will be tested in terms of compliance behaviour in settling the tax. This research employed a population of entire MSMEs registered in the Cooperation Agency, Small and Middle Enterprises in Sleman Regency, Indonesia. In contrast, the number of samples is obtained by employing the Slovin formula, which is 100 respondents covering eight business sector groups. A questionnaire is applied as a data collection technique that employs the data analysis method by applying multiple regression and SPSS version 16 as analysis tools. This research indicated that attitude towards behaviour, subjective norms, and perceived behavioural control simultaneously and significantly influence the compliance behaviour of MSME's taxpayers.

Oladipo et al. (2022) examined the influence of tax fairness on the tax compliance behaviour of listed manufacturing companies in Nigeria. The paper adopted a survey research method, and four hundred (400) copies of the questionnaire were administered to the selected manufacturing companies of both consumer and industrial goods sectors. Analysis of Variance (ANOVA) and Multiple Regression Analysis were also employed. The study found that there was a significant level of tax compliance among the listed manufacturing companies in Nigeria. The study also showed that the corporate taxpayer's perception of fairness has a significant impact on corporate taxpayers' willingness to pay taxes and that tax knowledge significantly influences tax compliance.

Putra et al. (2018) investigated tax avoidance as proof of agency cost and tax planning. This research explored tax planning conducted by an industrial company in Indonesia. Tax planning is done based on the measurement and assessment of each part of the financial report. The population in this study is a manufacturing company listed on the Indonesia Stock Exchange, amounting to 143 companies. The samples were chosen by using the purposive sampling method to obtain 100 samples. The research data is obtained from audited financial statements that were published on the Indonesia Stock Exchange. Multiple linear regression was used. The research results show that managers try to reduce the amount of tax paid officially so that the amount of tax paid is also small.

3.3. Gap in Literature

Furthermore, there is a gap in the literature regarding the examination of the interplay between agency costs, tax compliance, and the effectiveness of tax enforcement mechanisms in the Nigerian context. Longitudinal studies that track tax compliance behaviour and agency costs over an extended period are relatively scarce. Such studies could provide insights into the dynamic nature of tax compliance and the changes in agency cost within Nigerian listed firms. The study will hinge on agency cost to see its effect on tax compliance, as several studies have stated that stakeholders and signalling theories are their underpinning theories. Based on these, the null hypotheses are stated as follows:

- H_{01}: There is no significant impact of audit fees on tax compliance of listed firms in Nigeria.
- H_{02}: There is no significant impact of audit specialisation on tax compliance of listed firms in Nigeria.
- H_{03}: There is no significant impact of ICT investment on tax compliance of listed firms in Nigeria.
- H_{04}: There is no significant impact of board remuneration on tax compliance of listed firms in Nigeria.
- H_{05}: There is no significant impact of employee incentives on tax compliance of listed firms in Nigeria.
- H_{06}: There is no significant impact of employee shareholding on tax compliance of listed firms in Nigeria.

4. Methodology

The study employed *an ex-post-facto* research design. It is applicable to this study because it focuses on how actions that have already occurred predict certain causes, thereby not giving room for manipulation. The study population comprised 155 companies listed on the Nigeria Exchange Group (NXG). Secondary data were collected from the published annual audited accounts of the firms for a period of ten years from 2013-2022. A purposive sampling technique was used to select 20 companies to form the sample size of the study and to determine this, first enterprises listed after the 2003 code of corporate governance was issued were removed from the population because they had not undergone the succession of changes to the code of governance that would have ensured enough improvement in their transparency. Second, enterprises on the Alternative Securities Market (ASEM) Board were removed from the list since it is a specialist board for start-up companies, which are small and medium-sized organisations that may lack the necessary resources to maintain excellent corporate governance. Finally, growth board enterprises are exempt since they are predominantly SME-focused organisations that are free from capital market regulators' post-listing duties because they fall short of the Nigerian Exchange's toughest corporate governance and legal criteria.

S/N	Sector	Population	Listed After 2003	Alternative Securities Market (ASEM)	Growth Board	Sample Size
1	Agriculture	5	1	-	-	
2	Conglomerates	6	-	-	-	2
3	Constructions/Real Estates	8	4	-	-	2
4	Consumer goods	21	5	-	-	3
5	Healthcare	7	1	-	-	2
6	ICT	9	5	-	-	3
7	Industrial goods	13	3	-	-	2
8	Natural Resources	4	1	-	-	1
9	Financial Services	49	13	-	-	3
10 11	Oil and Gas Services	10 23	2 8	- -	- -	2 -
	TOTAL	155	43	-	-	20

Table 1: Sample Size Selection
Source: Authors' Compilation (2024) from the Nigeria Exchange Group (NGX) Website

4.1. Model Specification

In a bid to ascertain the effect of Agency cost on Tax compliance in listed firms in Nigeria, This study examined the relationship between agency cost and tax compliance in listed firms in Nigeria. The model is stated below.

The model formulated for this study is as follows:

$$TCit = \beta_0 + \beta_1(AU\_FEE_{it}) + \beta_2(AU\_SPE_{it}) + \beta_3(ICT\_INV_{it}) + \beta_4(BO\_REM_{it}) + \beta_5(INC_{it}) + \beta_6(EMP\_SH_{it}) + \varepsilon_{it}$$

Where:

TCit represents the level of tax compliance

AU_FEE represents the audit fees
AU_SPE represents the audit specialisation
ICT_INV represents the ICT investment
BO_REM represents the board directors' remuneration
INC represents the incentives and
EMP_SH represents the employee shareholding
β_0, β_1, β_2,β_3,β_4,β_5, and β_6 are the coefficients to be estimated, representing the impact of each variable on tax compliance.
ε_{it} is the error term.

From the foregoing, it is expected that audit fees, audit specialisation, ICT investment, board remuneration, incentives and employee shareholdings will significantly have an effect on tax compliance. In summary, the *A priori* expectation is stated as follows:

$B_{1it}>0$, $\beta_{2it}>0$, $\beta_{3it}>\beta_{4i}t>\beta_{5i}t>\beta_{6it}>0$

The data gathered shall be measured using a multiple regression technique.

Table 1 above shows the description, measurement and sources of each variable.

S/N	Variables	Description	Measurement	Sources
	Independent variable			
	Agency Cost			
1	**Monitoring Costs:**			
	Audit Fees	These are the payments made to external audit firms in exchange for their services.	Natural logarithms of audit (Ln= professional fees)	Permatasari dan Christina, (2018)
	Audit Specialisation	Specialist auditors are auditors who have more experience in auditing companies in one industry or the other.	Big 4: 1; if the auditor is one of the Big 4 auditing firms and 0 otherwise;	Dao & Pham (2014)
	ICT Investment	ICT (Information and Communication Technology) investment refers to the allocation of financial resources towards acquiring and implementing digital infrastructure within an organisation or industry	ICT Investments(TCO: Total cost of ownership)	Dinc et al., (2021)
2	**Bonding Costs:**			
	Board Remuneration	This is the process of evaluating and determining the remuneration of board members.	Total compensation includes board fees, equity-based compensation, committee fees, meeting attendance fees, etc.	Chan et al., (2023)
	Employee incentives	These are rewards or benefits offered to employees to motivate and reward their performances	Employee turnover rates Number of employees who left/average number of employees	Pratama et al., (2020)
3	**Residual loss:**			
	Employee shareholding	This quantifies the proportion of company shares owned by employees	Total number of shares owned by employees by the total number of shares outstanding	Qa'dan, & Suwaidan, (2018)
	Dependent variable:			
4	**Tax Compliance:**			
	Effective Tax Rate	This is the degree to which companies comply with tax laws and regulations	ETR= Current tax expenses/pre-tax income	Shevlin et al.,(2019)

Table 2: Measurement of Variables
Source: Authors' Compilation (2024)

5. Results and Findings

This chapter presents both the descriptive and inferential analysis of the relationship between agency cost and tax compliance in listed firms in Nigeria. The results from various diagnostic and specification tests, as well as results from the test of the stated objectives and the discussion of the findings, were made in this section.

5.1. Descriptive Statistics

Descriptive statistics are presented in table 3. It shows the mean, standard deviation, minimum and maximum value for both outcome and predator variables. Descriptive statistics in this study considers important elements such as the minimum, maximum, mean and standard deviation for the variables used in the study where the interaction of data is described.

Variables	Obs	Mean	Std. Dev.	Min	Max
LogAudit Fee	198	4.429396	1.182118	0	7.07
Audit Speci ~ n	199	.7236181	.4483358	0	1
ICT Investm ~t	200	2753725	8417975	0	6.23e+07
Board Remun ~n	200	381954.5	628607.4	0	4313565
Employee In ~ s	200	9281607	2.04e +07	0	1.17e+08
Employee sh ~g	200	13.51431	21.1373	0	69
ETR	200	.2639894	1.161048	-2.389769	12.28496

Table 3: Descriptive Statistics
Source: Authors' Computation (2024)

The table above shows the descriptive statistics of the data.

Table 3 shows the descriptive statistics of explanatory and explained variables for this study. It indicated that the monitoring cost proxy by the log of audit fees of the sampled firms is 4.42, with minimum and maximum costs of 0 and 7, respectively. The results also reveal a standard deviation of 1.182, indicating low variability across the sampled firms. In addition, table 2 shows that the average audit specification is measured by a dichotomous variable of 1 if the auditor is one of the Big4 auditing firms and 0 otherwise is 0.723. This means that 72% of the selected listed firms used one of the Big Four as their external or independent auditor, with a standard deviation of 0.44. This suggests that the distribution across the sampled listed firms in Nigeria is not widely dispersed. The last monitoring cost, ICT investment, has an average of 2753725 with a standard deviation of 8417975, indicating that the distribution is widely dispersed from the mean value.

Furthermore, the bonding cost of Board remuneration and Employee incentives revealed an average of 381954 and 9282607, respectively. The standard deviation of board remuneration and employee incentives showed that the majority of the distribution is far from the mean value. The mean value of residual loss measured by employee shareholding is 13%, while a deviation value of 21% indicates that there is a high deviation of the data from the mean. Finally, the average effective tax rate (ETR) of the selected firms is 26%, with a standard deviation of 1.16%, which indicates low variation across the sampled firms. The minimum and maximum values for the ETR of firms are -2% and 12%, respectively.

5.2. Correlation Matrix of Dependent and Independent Variables

The correlation matrix shows the relationship between each of the two pairs of variables in the model. The correlation matrix is a preliminary test to check for the possibility of multi-collinearity. However, in this study, a further test of multi-collinearity was conducted using the variance inflation factor (VIF) and Tolerance Value (TV).

	LogAud~e	Audit S~n	ICT Inv~t	Board R~n	Employ~s	Employ~g	ETR
LogAudit Fee	1.0000						
Audit Speci ~ n	0.4031	1.0000					
ICT Investm ~t	0.4080	0.1884	1.0000				
Board Remun ~n	0.5030	0.2048	0.3933	1.0000			
Employee In ~ s	0.3782	-0.0950	0.5231	0.3577	1.0000		
Employee sh ~g	-0.0293	0.1789	- 0.1399	-0.1766	-0.1759	1.0000	
ETR	0.0228	0.0826	- 0.0375	0.0291	-0.0465	-0.0932	1.0000

Table 4: Correlation Matrix
Source: Authors' Computation (2024)

The table above shows the correlation of the independent variables with the dependent variable.

From the correlation matrix of table 3, it can be seen that all the explanatory variables (audit fee, audit specialisation, and board remuneration,) are positively correlated with ETR of the listed firms in Nigeria. The implication is that the above variables move in the same direction as the ETR. On the other hand, ICT investment, employee incentives, and employee shareholding have a negative relationship with the effective tax rates. The implication is that the above variables move in opposite directions with the ETR. With respect to association among the independent variables themselves, the table reveals that there is a positive and negative correlation between variables. Finally, the relationship between the variables themselves is not found to be significant to the extent that one can conclude that there is multi-collinearity unless the variance inflation factor and tolerance values are comparatively beyond the established rule of thumb. Thus, the variance inflation factor (VIF) and tolerance value are advanced measures for assessing multi-collinearity among the regressors.

5.2.1. Post Estimation Tests

Post-estimation tests were conducted to test the validity of the assumption of the regression model. The post-estimation test carried out in this study includes the Multi-collinearity test, the Heteroscedasticity test, the Normality test and the Hausman test.

5.2.2. Multi-collinearity Test

When the VIF value is more than 10, there is a strong indication of the presence of multi-collinearity. The result of VIF reveals a value less than 10, which signifies the absence of multi-collinearity among the explanatory variables. The study can rely on the regression coefficient to predict the level of impact of independent variables on the dependent variable. Hence, the final outcome of this study is considered free from the effect of harmful multi-collinearity, thereby becoming valid. The result is presented in table 4.

Variables	VIF	1/VIF
LogAudit Fee	1.75	0.572778
Audit Speci ~ n	1.66	0.603200
ICT Investm ~t	1.58	0.632406
Board Remun ~n	1.48	0.676260
Employee In ~ s	1.40	0.712886
Employee sh ~g	1.10	0.907787
Mean VIF	1.49	

Table 5: Variance Inflation Factor
Source: Authors' Computation (2024)

This table shows the multi-collinearity test in the variables.

5.2.3. Heteroskedasticity Test

Ho: Constant Variance
Variables: fitted values of ETR
chi2(1) = 74.45
Prob > chi2 = 0.0000

Table 6: Breusch-Pagan/Cook-Weisberg Test for Heteroskedasticity
Source: Authors' Computation (2024)

The table above shows the heteroscedasticity test of the data for the study.

The heteroskedasticity test was conducted to check the validity of homoscedasticity, i.e. equal or constant variation among error terms, which is one key assumption of a regression model. The absence of homoscedasticity violates the assumption and may lead to wrong inference. The result above revealed that there is the presence of heteroskedasticity given the probability value of 0.0000, which is significant at 1%. This implies that the error term does not vary across the residuals and, as such, is homogeneously not distributed. Hence, the regression result was subjected to a further test where panel-corrected standard error regression was run to take care of the heteroskedasticity problem, and the result of the regression would be suitable for analysis purposes.

5.3.Normality Distribution of the Data

Thus, this study conducted a normality test on the residuals of the model using Shapiro-Francia.

Shapiro-Wilk W test for normal data					
Variables	**Obs**	**W**	**V**	**z**	**Pob>z**
ETR	200	0.28767	106.269	10.736	0.00000
LogAudit Fee	198	0.88761	16.620	6.464	0.00000
Audit Speci ~ n	199	0.98921	1.603	1.085	0.13902
ICT Investm ~t	200	0.37622	93.059	10.430	0.00000
Board Remun ~n	200	0.64786	52.534	9.115	0.00000
Employee In ~ s	200	0.510567	73.018	9.872	0.00000

Table 7: Shapiro-Wilk W Test for Normal Residual
Source: Authors' Computation (2024)

This table shows the normality test.

The p-value for all the models except for the audit specification is less than 1% significant, as obtained in table 6 for Shapiro-Francia. Since the value is less than 0.05, as indicated in the table at the 5% level of significance, the null hypothesis that the residual is normally distributed across the models cannot be rejected.

5.4. Regression Result

This sub-section deals with the regression result of the explained variable represented by ETR and the explanatory variables (audit fee, audit specialisation, ICT investment, employee incentives, employee shareholding and board remuneration) of the study.

Test: Ho: difference in coefficients not systematic
chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.02
Prob>chi2 = 0.7966

Table 8: Hausman Test
Source: Authors' Computation (2024)

This table shows the Hausman test conducted on the model.

The study conducted a Hausman specification test after fixed and random tests were carried out for the model. Hausman specification test conducted for the model produced a p-value of 0.7966, which is insignificant at 5 %. This implies that the variation across entities is assumed to be random and correlated with the independent variables included in the model. As a result of this, the result of the random effect model was considered suitable for the analysis, as shown in table 7.

5.5. Panel Corrected Standard Error (PCSE) Result

However, after conducting all post-estimation tests, due to the presence of heteroskedasticity therefore, the study further conducted a panel-corrected standard error (PCSE) model, which overcame the heteroskedasticity issues. Thus, this study reports PCSE model results based on the issues raised from the aforementioned. The study presents the regression result panel corrected standard error (PCSE) regression in table 9 below.

Linear regression correlated panels corrected standard errors (PCSEs)						
Group variable: Company ID			Number of Obs = 199			
Time variable: YEAR			Number of groups = 20			
Panels: correlated (unbalanced)			Obs per group:			
Auto correlation: no autocorrelation			min = 9			
Sigma computed by case-wise selection			avg = 9.95			
			max = 10			
Estimated covariance = 210			R-squared = 0.0256			
Estimated autocorrelation = 0			Wald chi2(6) = 10.05			
Estimated coefficients = 7			Prob > Chi = 0.1227			
			Panel-corrected			
	ETR	**Coef.**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf. Interval]**
Log Audit Fee	.0089894	.0767911	0.12	0.907	-.1415184	.1594972
Audit Specialisation	.2856764	.2270206	1.26	0.208	-.1592758	.7306286
ICT Investment	-9.66e-09	5.38e-09	0.073	-1.79	-2.02e-08	8.98e-10
Board Remuneration	3.63e-08	1.26e-07	0.29	0.773	-2.11e-07	2.83e-07
Employee Incentives	-1.79e-09	2.06e-09	-0.87	0.384	-5.892e-07	2.24e-09
Employees' shareholding	-.0068086	.0036634	-1.86	0.063	-.0139888	.0003716
_cons	.1403621	.3329512	0.42	0.673	-.5122102	.7929344

Table 9: Panel Corrected Standard Error Regression
Source: Authors' Computation (2024)

The table shows the result of the panel-corrected standard error regression carried out on the model.

The cumulative correlation between the dependent variable and all the independent variables of 0.0256 shows that monitoring cost, bonding cost and residual loss (audit fee, audit specialisation, ICT investment, employee incentives, employee shareholding and board remuneration) jointly explained 2% of tax compliance of listed firms in Nigeria measure by effective tax rate and it is statistically insignificant at 5% as indicated with p-value of 0.1227 while the remaining 86.3% are caused by other factors not captured in the model.

The Panel Corrected Standard Error regression showed that audit fees and audit specialisation have a positive but insignificant effect on the tax compliance of listed firms in Nigeria, as measured by the effective tax rate. While ICT investment has a negative and insignificant effect on tax compliance of listed firms in Nigeria, it is measured by the effective tax rate. This indicated that monitoring cost has an insignificant impact on the tax compliance of listed firms in Nigeria, as measured by the effective tax rate.

Furthermore, bonding cost measures with employee incentives and board remuneration have positive and negative effects, respectively, on tax compliance of listed firms in Nigeria measured by the effective tax rate, which is insignificant at a 5% significant level. Lastly, residual loss measured by the employee shareholding has a positive and negative effect, respectively, on tax compliance of listed firms in Nigeria measured by the effective tax rate, which is insignificant at a 5% significant level.

6. Discussion of Findings

The coefficient of the result obtained showed that monitoring costs measured by audit fees, audit specialisation, and ICT investments have an insignificant effect on tax compliance, as measured by the effective tax rate of listed firms in Nigeria. This indicates that as the monitoring costs of firms increase, they have little or no effect on tax compliance. In addition, the bonding costs measured by Board remuneration, employees, and residual loss measured by the Employees' shareholding also exhibited an insignificant effect on tax compliance measured by an effective tax rate of listed firms in Nigeria, which is insignificant at a 5% significant level. Hence, this study failed to reject all the null hypotheses stated earlier and accepted the alternate hypothesis. The finding of this study is in tandem with those of Fatima et al. (2018), who investigated whether agency cost effectively explains agency conflict in the context of a developing country, namely Pakistan. The study utilised a qualitative approach for this research and conducted 26 semi-structured interviews, which allowed asking a series of open-ended questions from research participants. Findings showed that in Pakistan, there is no variation in risk preferences of principals (minority shareholders) and agents (majority shareholders). We also found that remuneration packages and board independence are not effective tools for governing owner-managers in Pakistan. Likewise, Yinka et al. (2022) examined the effect of good corporate governance attributes on the tax compliance behaviour of listed firms in Nigeria from 2012-2016; 79 selected listed firms met the conditions for 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, and the tax office/secondary data were used. Findings suggest that board size has a negative relationship, while the effects of gender diversity, auditor profile, ownership concentration, and institutional ownership are not significant.

7. Conclusion

This study examined the costs of agency on tax compliance in listed firms in Nigeria. This study considers the following variables: Monitoring costs measured by audit fees, audit specialisation and ICT investment. Bonding costs are measured by Board remuneration and employee incentives, and Residual loss is measured by employee shareholding. The broad objective of this study is to investigate the link between agency cost and the level of tax compliance among listed firms in Nigeria. The specific objectives are to identify agency costs and tax compliance in relation to monitoring costs, bonding costs, and residual loss. The findings imply that the agency cost incurred by the shareholders to reduce agency problems does not significantly affect their tax compliance. Although monitoring costs are measured by audit fees, audit specialisation and ICT investment, bonding costs are measured by board remuneration and employee incentives, and residual loss is measured by employee shareholding. Based on the regression analysis, this study concludes that the costs of an agency have no significant effect on tax compliance in listed firms in Nigeria.

Consequently, it is recommended that firms should actively seek strategies to optimise the efficiency of monitoring, bonding, and residual activities in order to achieve improved alignment with tax compliance objectives. Furthermore, it is advisable for companies to contemplate the augmentation of bonding procedures to establish congruence between the objectives of agents and shareholders, fostering improved adherence to tax regulations. This may entail the development of more resilient CEO remuneration frameworks and employee incentive schemes. It is suggested that firms may contemplate the inclusion of tax compliance as a constituent of long-term performance measures for executives and management. This would underscore the significance of adhering to tax regulations as a strategic objective and harmonise it with the broader achievements of the business.

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