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Tax planning and financial performance of conglomerate firms in Nigeria

Research Article

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Abstract: This study explores the influence of tax planning on the financial performance of conglomerate firms in Nigeria between 2014 and 2023. The study focuses on the roles of effective tax rate (ETR), tunneling incentive (TI), and bonus mechanism (BM). A fixed effects panel regression model was employed, validated through the Hausman test (p = 0.0036). Findings indicate that ETR and log of gross profit (LOGGP) significantly and positively affect firm performance, showing that profitable firms often bear higher tax burdens but also display stronger operational efficiency. Conversely, TI and BM recorded negative and positive coefficients, respectively, though both were statistically insignificant. The model explained 46.57% of the variation in performance, and all diagnostic checks confirmed its robustness. These findings highlight the importance of tax management, corporate governance, and incentive systems in shaping the financial outcomes of conglomerates in Nigeria.

Keywords: *Tax planning • Effective tax rate • Tunneling incentive • Bonus mechanism*

1. Introduction

Robust financial performance (FP) is essential for sustaining shareholder wealth, enabling reinvestment, driving diversification, and maintaining competitive advantage. Firms with strong profitability also contribute to broader economic stability through efficient resource allocation and cost reduction strategies. Such outcomes depend largely on management decisions (Abbas and Eksandy, 2020; Hussain et al., 2019; Mamirkulova et al., 2020; Mubeen et al., 2021). Among the key strategies are tax planning, tunneling incentives (TIs), and bonus mechanisms (BMs), all of which directly or indirectly influence profitability.

The central aim of any enterprise, whether small or large, is to maximize profit and shareholder value. This is achieved through enhanced revenue generation, cost efficiency, and overall operational effectiveness. Tax obligations, however, represent one of the largest costs that reduce profits. For multinational and conglomerate firms operating in multiple jurisdictions, the challenge of multiple taxation adds further strain. These firms often adopt tax planning strategies to defer, reduce, or legally avoid excessive tax burdens (Pakistan, 2020). Tax planning involves the careful use of allowable incentives, deductions, and exemptions within the legal framework to improve financial outcomes.

For conglomerates, effective tax planning has the potential to reshape investment strategies, support innovation, and sustain growth. Properly structured tax management strengthens liquidity, increases after-tax earnings, and enhances competitiveness, while ineffective tax planning increases liabilities, limits expansion, and constrains growth opportunities (Enobakhare and Okafor, 2024).

Despite its importance, research on tax planning and firm performance in Nigeria remains limited. Prior studies have focused mainly on banking, healthcare, and non-financial services (Ogundajo and Onakoya, 2016; Kayode and Adegbie, 2020; Olurankinse and Mamidu, 2021). Findings have been mixed, ranging from positive to negative or insignificant effects, highlighting the need for more focused investigation into conglomerates.

This study therefore examines the effect of tax planning on the performance of Nigerian conglomerates, guided by the following questions:

What effect does effective tax rate (ETR) have on FP?

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How do TIs influence financial outcomes?
To what extent does BM affect FP?

2. Conceptual review

2.1 FP

FP describes how well a firm achieves its financial objectives. It is often used to gauge the overall health of a company and its ability to sustain value creation. Akinadewo (2023) stressed that performance assessment allows for both industry-specific and cross-sectoral comparisons. Ogbeifun and Akinola (2019) added that it can be determined by analyzing a company's activities and reported financial statements. Common indicators include profitability, liquidity, leverage, solvency, and capital adequacy.

2.2 Tax planning

Tax planning involves legally reducing tax burdens by anticipating future obligations and structuring business activities to claim available deductions and reliefs. Fasua and Osagie (2024) describe it as arranging transactions to ensure maximum benefits within the tax system. Effective tax planning improves profitability and strengthens shareholder wealth, making it an important component of corporate strategy (Enobakhare and Okafor, 2024).

2.2.1 ETR

ETR measures the actual proportion of income paid as tax. Unlike statutory tax rates, ETR provides a realistic view of a firm's tax burden, reflecting its true impact on profitability (Enobakhare and Okafor, 2024).

2.2.2 TIs

Tunneling refers to practices by controlling shareholders who divert firm assets or profits for personal gain. Hertanto et al. (2023) argued that such incentives are facilitated by control rights, often to the detriment of minority shareholders. Prior studies (Maryanti and Munandar, 2024; Surbakti, 2025) show that tunneling often overlaps with tax planning strategies.

2.2.3 BM

BMs are compensation systems linking managerial rewards to firm profitability. Approved by shareholders, they aim to align management interests with shareholder wealth. However, Osho et al. (2021) warned that poor design can lead to manipulation of reported earnings, while Tambunan et al. (2023) noted that bonuses may promote short-term rather than sustainable performance.

3. Review of theories

Agency theory of tax planning: Jensen and Meckling (1976) explained the principal–agent relationship between shareholders and managers. In taxation, managers act as agents tasked with minimizing liabilities while safeguarding shareholder interests. Slemrod (2004) extended this by arguing that tax managers should exploit available opportunities in tax laws to reduce burdens and improve returns.

Hoffman's tax planning theory: Hoffman (1961) emphasized that tax planning should reduce liabilities without negatively affecting accounting income. Nwaobia and Jayeoba (2016) and Akintoye et al. (2020) supported this view, noting that careful planning boosts profitability by reducing taxes without altering reported results.

Stakeholder theory: Freeman (1984) argued that firms exist not only to maximize shareholder wealth but also to serve broader stakeholders, including governments and communities. Freeman et al. (2010) stressed that paying taxes forms part of this responsibility, while Kayode and Folajinmi (2020) noted that managers must balance wealth creation with compliance.

4. Empirical review

Tax planning and FP: Akpanowo et al. (2024) found a negative relationship between ETR and Return on assets (ROA) among Nigerian firms. Ado et al. (2021) also reported that there was no significant link between tax-related variables and performance. Conversely, Januri and Hanum (2022) observed a positive relationship in Indonesian firms, while Iormbagah et al. (2021) found mostly insignificant effects in Nigeria. Akintoye et al. (2020) highlighted mixed outcomes, reflecting complexity.

ETR and FP: Awotomilusi et al. (2024) found that ETR positively affected ROA among Nigerian firms. Tackie et al. (2022) reported a nonlinear relationship in Ghana, while Erasmus and Uwikor (2021) found insignificant effects in Nigerian banks.

TIs and performance: Shahwan (2024) and Osho et al. (2021) both found that TIs showed no significant correlation with FP.

BMs and performance: Maryanti and Munandar (2024) found that bonuses had no effect on transfer pricing in Indonesia. Mohammed et al. (2023) observed that bonuses negatively affected return on equity in Nigeria, though equity-based incentives sometimes improved outcomes.

5. Research design

An *ex-post facto* research design was adopted because the study relied on historical secondary data from company financial statements between 2014 and 2023. This approach allowed an objective assessment of the relationship between tax planning variables and FP.

6. Model specification

To achieve the objectives of this study, the research built upon and adapted the framework developed by Enobakhare and Okafor (2024), who examined management approaches in tax planning and transfer pricing within the operations of multinational corporations in Nigeria. Their original model considered independent variables including tax planning, TIs, and bonus incentives, with transfer pricing as the dependent variable. In the present study, the model was revised to include ETR and FP. The functional form of the model is as follows:

FP = *f*(PL), where PL is decomposed to ETR, TI, and BI.

The equation is formulated as follows:

$$FP = f(ETR, TI, BI, Log\,GP), \quad (1)$$

$$FP = \beta_0 + \beta_1 ETR_{it} + \beta_2 TI_{it} + \beta_3 BI_{it} + \beta_4 BI_{it} + \beta_5 Log\,GP_{it} + \mu_{it} \quad (2)$$

where BI is the bonus incentive and GP is the gross profit (control variable).

β_0 represents the intercept of the regression line and is treated as a constant. β_1–β_5 denote the coefficients or slopes of the regression line corresponding to the independent variables. *U* is the error term, capturing other factors that influence the model but are not included. "*t*" indicates the year or period, and "*i*" represents the firm.

7. Measurement of variables

Tables 1 and 2

8. Data analysis

8.1 Panel least square regression

The pooled ordinary least square (OLS) approach is a constrained method, which assumes that regression coefficients and standard errors are homogeneous across all cross-sectional observations over time. It does not consider potential heterogeneity within cross-sectional data or time series. A major limitation of this model is that it fails to capture differences among the various listed conglomerate companies in Nigeria included in the study. It assumes that all six listed conglomerate firms are completely homogeneous, which is not the case. By aggregating the six companies, the analysis loses the heterogeneity or unique characteristics that may exist among them. To address this limitation, a panel estimation technique was applied, using either fixed effect analysis or the LSDV approach, as well as random effects analysis.

To determine the most appropriate model between these alternatives, the study employed the Hausman Test.

Variables	Symbol	Measurement	Source
		Dependent	
FP (Return on assets)	ROA	Dividing profit after tax by total assets	Osho et al. (2021)
		Independent	
Effective tax rate	ETR	ETR = Tax expenses pretax income	Dyreng et al. (2008)
Tunneling incentive	TI	Measured using dichotomous data, where a value of "1" is assigned if a company distributed dividends in a given year, and "0" if no dividends were distributed	Osho et al. (2021)
Bonus mechanism	BM	BM represents the ratio of current net profit relative to the increase in net profit, indicating the trend in profitability	Osho et al. (2021)
Gross profit	GP	Revenue less cost of sales	Osho et al. (2021)

Table 1. Summary of measurement of variables.

Source: Author's Compilation (2025).

Variable	Estimation of panel least squares results								
	Estimation of panel least square results			Fixed effect or least square dummy variable (LSDV)			Random effects		
	Coefficient	*t*-statistic	Prob.	Coefficient	*t*-statistic	Prob.	Coefficient	*t*-statistic	Prob.
ETR	0.341955	2.270366	0.0271	0.331914	2.157465	0.0358	0.341955	2.485416	0.0160
TI	−0.054037	−0.539546	0.5917	−0.052678	−0.563389	0.5757	−0.054037	−0.590652	0.5572
BM	−0.000369	−0.004585	0.9964	0.109157	1.284893	0.2048	−0.000369	−0.005019	0.9960
LOGGP	0.060109	4.648152	0.0000	0.039075	2.969448	0.0046	0.060109	5.088427	0.0000
C	0.351082	2.633788	0.0109	0.235591	1.840351	0.0717	0.351082	2.883261	0.0056
R^2	0.295610			0.465665			0.295610		
DW Sta	1.638235			2.093877		0.0036	1.639235		0.0036
F-Stat	5.770445			4.841577			5.770445		
P(*F*-Stat)	0.000596			0.000115			0.000596		
Hausman test pro.									

Table 2. Estimation of panel least squares results.

Source: Author's (2025).

8.2 Discussion of findings

The first objective is to investigate *the effect of ETR on FP of conglomerate firms in Nigeria.* Based on the findings of the study, the ETR had a significant influence on the FP of conglomerate firms in Nigeria. The result revealed that the probability level (*p*-value) of 0.0358 and the *t*-statistic of 2.157465 were both below the 5% significance threshold. Consequently, the outcome supported the acceptance of the alternate hypothesis over the null hypothesis. This implies that as the ETR rises, the FP of conglomerate firms in Nigeria also improves. The result aligns with the work of Iormbagah et al. (2021) but contrasts with the findings of Awotomilusi et al. (2024) and Erasmus and Uwikor (2021). A possible explanation for the significant effect of the ETR on FP could be the positive association between tax compliance and profitability. Conglomerate firms are usually large, diversified, and highly visible to regulatory agencies, which makes them more likely to comply with tax requirements. A higher ETR may therefore signal greater taxable income, suggesting stronger profitability and improved financial outcomes.

In addition, conglomerates with solid financial structures may be less reliant on aggressive tax avoidance strategies, opting instead for transparent operations. Such transparency and adherence to tax laws can foster greater investor confidence, better access to credit, and enhanced reputational capital – all of which positively affect FP. Furthermore, a significant ETR might indicate that the firm operates in more regulated or less risky sectors, where steady revenues and compliance are rewarded with stability. In this sense, the significant relationship observed may not mean that higher taxes directly boost performance; rather, high-performing firms naturally incur higher effective taxes because of increased earnings and fewer deductions.

The second objective is to examine *how TI affects the FP of conglomerate firms in Nigeria.* The findings indicated an insignificant negative effect of TI on FP. Specifically, the results showed a *p*-value of 0.5757 and a *t*-statistic of –0.563389, both above the 5% significance level. Hence, the outcome supported the acceptance of the null hypothesis instead of the alternative hypothesis. This suggests that a higher TI corresponds with lower FP of conglomerate firms in Nigeria. The results are consistent with Shahwan (2024). A plausible explanation is that, given their large scale and visibility, most conglomerates tend to have relatively strong internal governance systems and are closely monitored by regulators. These governance and oversight mechanisms may help mitigate the extent or impact of tunneling behaviors, such as resource diversion by controlling shareholders for private benefit. As a result, even though tunneling may exist, its measurable impact on FP is likely limited or obscured within the wider operations of these firms.

The third objective is to explore *how the BM affects FP of conglomerate firms in Nigeria.* The findings showed an insignificant positive effect of the BM on FP. The results indicated a *p*-value of 0.2048 and a *t*-statistic of 1.284893,

both greater than the 5% significance level. Thus, the null hypothesis was accepted in place of the alternative hypothesis. This implies that greater reliance on BMs is associated with improved FP of conglomerate firms in Nigeria. The results are consistent with the findings of Shahwan (2024) and Osho et al. (2021), but contradict the work of Mohammed et al. (2023). The study revealed that BM had an insignificant positive impact on FP. A possible explanation is the weak linkage between incentive systems and performance outcomes in many Nigerian conglomerates. Although bonus schemes are designed to motivate managers and align their goals with those of shareholders, in practice, their design and execution may lack adequate performance-based criteria or transparency, thereby limiting their effectiveness in driving meaningful improvements in firm performance.

The analysis established that the ETR significantly enhances the FP of Nigerian conglomerate firms, as higher profitability often results in increased tax obligations and greater corporate credibility. In contrast, TIs and BMs exhibited no significant effect, a situation that may be linked to strong governance practices and the weakness of poorly structured incentive schemes. Taken together, the findings confirm that profitability remains the dominant driver of FP among Nigerian conglomerates.

In line with these results, it is recommended that firms strengthen tax compliance and maintain transparency in financial reporting to reinforce investor confidence and access to capital. Internal governance and monitoring structures should be further tightened to minimize tunneling practices and protect corporate resources. In addition, BMs need to be redesigned to align managerial incentives with measurable performance outcomes. Finally, sustained emphasis on operational efficiency will help ensure long-term stability, resilience, and competitiveness within the sector.

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Author contributions

Henry Kehinde Fasua and Toluwa Ohidoa jointly contributed to this study in line with the CRediT taxonomy. Both authors were involved in the conceptualization and methodology of the research. Henry Kehinde Fasua handled data collection, formal analysis, investigation, and prepared the original draft of the manuscript. Toluwa Ohidoa supervised the study, validated the analytical approach, and was responsible for reviewing and editing the manuscript for intellectual content and academic rigor. Both authors approved the final version of the manuscript and agreed to be accountable for all aspects of the work.

Conflict of interest statement

The authors declare that there is no conflict of interest regarding the publication of this study.

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