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CORPORATE GOVERNANCE PRACTICES AND ETHICAL TAX PAYERS' BEHAVIORS OF SMALL AND MEDIUM-SCALE ENTERPRISES IN LAGOS STATE

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ABSTRACT: *Tax revenues are essential for governance, as many government functions are hindered without them. This study examined the impact of corporate governance practices and ethical taxpayer behaviours of small and medium-scale enterprises in Lagos State. The study employed the survey research design. Data were collected from primary sources through structured questionnaires distributed to SMEs across various sectors. The study adopted a Simple random sampling technique. The study population comprises 11,643 registered small and medium-scale enterprises (SMEs) in Lagos. A sample size of 372 was selected using a survey system provided on www.surveysystem.com/sscalc. The data collected were analysed using descriptive statistics and regression analysis. It was found that while independent board members can enhance financial discipline and adherence to tax obligations, their effectiveness depends on several factors, including board expertise, regulatory environment, and access to financial advisory services. The study concluded that board composition plays a role in SMEs' tax compliance behavior, though the extent of its influence varies. The study recommended that SMEs should consider appointing board members with financial and tax expertise to enhance compliance and decision-making processes.*

KEYWORDS: Tax revenue, tax compliance, board members, and governance.

INTRODUCTION

SMEs in Nigeria account for 96% of business enterprises and 84% of employment opportunities, totalling about 17.4 million (IMF, 2018; PwC, 2019). They account for over 50% of the industrial employment, 90% of the manufacturing sector in terms of the number of enterprises and dominance in agriculture (IMF, 2018). One of the most essential roles attributable to SMEs is the ability to generate employment for most people (Lawal et al., 2020).

Agusti & Rahman (2023) stated that tax attitude is an essential issue in tax psychology research because it can indicate the behavior of taxpayers. Taxpayers' attitudes may be positive or negative (Damayanti et al., 2020). A positive (negative) attitude suggests an individual's positive (negative) evaluation of an object. Taxpayers whose attitude toward tax compliance is positive are more compliant than those who are negative. Kumi (2023) defines taxation as a significant tool by which governments worldwide generate resources to discharge their duties. As taxes are the country's primary source of revenue, it is essential to make continuous efforts to investigate and improve the system so that the country's economic growth can be enhanced (Abdelmoula et al., 2022).

According to El-Kassar et al. (2015), corporate governance is concerned with the well-being of society, including stakeholders. Similarly, corporate governance refers to the policies and procedures used by businesses to achieve specific goals, missions, and visions for various stakeholders (Poudel, 2015). They also define ethics as the morals, standards and guidelines upon which an individual within a culture operates.

Every tax system is embedded with compliance challenges, and the Nigerian tax system is particularly problematic due to the widespread corruption in the country (Gurama et al., 2015). As a result, it is essential to examine how board size, composition, and independence promote tax compliance, reduce tax avoidance and evasion, improve tax filing accuracy and voluntary disclosure among SMEs in Lagos State. The high rate of tax non-compliance in Lagos State has prompted the government to explore various strategies to improve tax revenue collection to support fiscal and monetary policies (Aladejebi, 2018).

The primary aim of this study is to investigate the impact of corporate governance practices and ethical taxpayer behaviours of small and medium-scale enterprises in Lagos State. The research hypotheses are stated as the basis of this study's specific objectives and research questions.

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Research Hypotheses

$H_0 1$: There is no significant relationship between board composition and voluntary disclosures or compliance of small and medium-scale enterprises in Lagos State.

$H_0 2$: There is no significant relationship between board size and tax avoidance behaviour of small and medium-scale enterprises in Lagos State.

LITERATURE REVIEW

Concept of Corporate Governance

The International Finance Corporation (IFC) defines governance as the system through which companies are managed and their business is controlled. According to Bash and Zoghlami (2023), the intensification of competition has made it necessary to have a system that regulates the relationship between companies and be a framework for rules and practices that guarantee the ability of the board of directors in accountability, transparency and achieving integrity in the relationship between the company and all parties (management, financiers, customers, society, government.

In 2019, Nigeria introduced a new corporate governance code applicable to private companies, public companies, and not-for-profit entities. The Code consists of seven parts and includes 28 principles, covering key areas such as the board of directors, audit, shareholder relations, business ethics, sustainability, transparency, and definitions. It follows a principle-based framework that mandates an "apply and explain" approach, requiring companies to comply with the Code and justify any deviations. This approach aims to promote stronger corporate governance practices among Nigerian companies.

Characteristics of Good Corporate Governance

1. **Transparency:** Transparency may be explained as a situation where reliable, relevant, and timely information about government activities is available to the public. Without transparency and accountability, trust between the government and its citizens diminishes, leading to social instability and a less favorable environment for economic growth (Oladipo, 2020). It ensures that the firm's operations are conducted transparently, with accurate, relevant, and timely information available for decision-making.

2. **Accountability:** Accountability has been described as a key requirement of good governance (UNESCAP, 1997). According to Oladipo (2020), accountability in controlling and managing public funds is one of the most sensitive aspects of government activities in all democracies. Government institutions, the private sector, and civil society organisations must be accountable to the public and their institutional stakeholders.

3. **Discipline:** A company's corporate governance mechanism works within a nation's legal framework, and what is required first is that the firm must obey the laws of the host country

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and the rules and regulations of the particular sector or industry in which it operates. Part of the characteristics of good corporate governance is for the board and management to be disciplined enough to obey the rules.

4. **Self-Evaluation:** The board of directors controls and monitors the management. The periodic evaluation will ensure the board continues to meet its obligations and that the directors are still qualified, independent, and fit for the office of the firm's director. As Mack (2016) stated, a constant evaluation ensures that potential problems are spotted, communicated, and mitigated before they become honest and embarrassing.

Business Ethics

According to Mahmood (2024), business ethics is a process for integrating values such as honesty, trust, transparency and fairness into its policies, practices and decision-making. Business ethics is, therefore, inherently linked with corporate governance. The importance of business ethics cannot be denied. The old English proverb "as you sow, so shall you reap" indicates the significance of business ethics. A firm which applies ethical practices also expects to be dealt with ethically. These expectations and the consequent adoption of ethical practices create a chain effect in promoting ethical practices.

Tax Literacy

Tax literacy is a fundamental concept in the literature and is closely related to financial literacy (Cvrlje, 2015). Pratama (2018) states that when taxpayers have a higher tax awareness, they follow high moral behaviours. Newman et al. (2019) posit that taxpayers with sound formal education and knowledge are likely to have sufficient information about tax and fiscal policies because of their level of learning and experience. The taxpayer's degree of awareness of the tax rules and regulations is referred to as tax knowledge (Oladipupo & Obazee, 2016). Financial literacy can be viewed through the consumer behavior model framework, which provides a more comprehensive perspective, focusing on information and knowledge, and is expected to encourage an individual's behavioral change (Brackin, 2014).

Knowledge refers to information recognised or understood by an individual and is closely linked to learning (Bird, 2015). According to Nichita et al. (2019), tax literacy is taxpayers' understanding of their rights and obligations, enabling proper tax compliance. It involves the expertise to manage tax matters effectively (Bhushan, 2013) and has been shown to improve compliance (Nichita et al., 2019). Furthermore, tax literacy helps address the complexities of tax systems, which are often criticised for being difficult to navigate (Agusti & Rahman, 2023).

Tax Avoidance

Bash and Zoghlami (2023) stated that tax avoidance could be classified into legal and illegal by economists and jurists due to the difficulty in identifying tax avoidance behavior easily and that the difference between what is legal and what is unlawful in tax administration is minimal, so that it is not possible to guarantee the existence of a clear division.

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According to Ogbodo and Omonigho (2021), tax avoidance is "the legal application of tax laws to one's advantage, to reduce the amount of tax payable by means that are within the law." Braithwaite (2005) defines tax aggressiveness as a scheme or arrangement put in place with the sole or dominant purpose of avoiding tax. Tax planning, avoidance or aggressiveness has high costs and benefits to a firm and its shareholders (Desai and Dharmapala, 2008). The benefits to the firm include higher cash flows and net income, while to the shareholders, it implies higher residual income (Blouin, 2014). The costs include negative consequences such as large penalties, negative publicity (Ogbodo and Omonigho, 2021), political costs (Mills et al., 2013), or the firm labelled as a "poor corporate citizen" (Hanlon and Slemrod, 2009).

Tax Compliance

Tax payment is an obligatory duty of every citizen, whether natural or corporate. As a civic duty, citizens are expected to comply with such obligations voluntarily, but that is not the case with some citizens. Ibrahim and Lawal (2022) described tax compliance from the perspectives of tax accountants, lawyers and taxpayers. To a tax accountant, it refers to the time taken to prepare tax returns together with tax planning. A tax lawyer can see it from the complexity viewpoint when analysing, comprehending, and inferring tax laws. To a taxpayer, it is seen from the time taken and the cost incurred in abiding by the relevant tax legislation.

Compliance can be through enforcement by relevant authorities or through the voluntary willingness of the taxpayers (Kogler et al., 2012). Tax compliance enforcement is through powers conferred on the appropriate authorities to force the taxpayers to pay, while voluntary means by the morality of the taxpayers to pay tax willingly. Thus, voluntary tax compliance has been defined as filling and reporting tax returns, correct self-assessment of tax due and payment of taxes before or on the due date without enforcement (Mas'ud et al., 2014). Ng. et al. (2020) posit that the willingness to pay taxes is the act of paying taxes in conformity with the tax regulations of taxpayers.

Tax Evasion

Tax evasion scores of developing African countries with that of developed and transition countries. According to Mas'ud et al. (2014), a statistic put the average tax evasion in developing countries in 2002 between 35% and 55% of the Gross Domestic Product (GDP), which is worse than that of developed nations like the US. Moreover, for personal income tax about 95 per cent of personal income tax in developing countries comes from the formal sector through withholding tax (PAYE) deducted by the public sector and large firms in the salaries and wages of its employees, compared to 80 per cent in developed nations (International Monetary Fund, 2011). This source further stated that less than 5 per cent of the population in developing countries paid personal income tax compared to about 50 per cent in developed nations. Furthermore, only about 15% of taxpayers' income is reached in developing countries for tax purposes compared to about 57% in developed countries (Mas'ud et al., 2014).

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Corporate Governance Mechanisms

Board Size

The proposed reform's primary focus is the board's number and structure (Rahayu & Wibowu, 2023). According to Kalbuana et al. (2023), each company's board size differs due to the business's needs and complexity. The board makes internal control and other corporate decisions of directors with the authority of shareholders. According to Lanis et al. (2017), the size of the board of directors can affect the company's management strategy (Boussaidi & Hamed, 2015). The size of the board of directors may be used as a governance mechanism for tax avoidance in an attempt by board members to reduce taxes paid in a way that is contrary to the purpose of tax regulators (Hoseini et al., 2019).

Board Independence and Corporate Governance

CAMA (2020) and NCCG (2018) both recognise the importance of board independence in improving corporate governance disclosures and compliance. Having more independent directors in board composition is considered a critical governance mechanism to mitigate the conflicts of interest between shareholders and executives (Fama & Jensen, 1983). According to Boshnak (2021), appointing independent directors is an essential means of minimising the potential conflict between principals and agents and should thereby improve the value of firms. Onunuka et al. (2024) assert that independent directors perform essential monitoring responsibilities in companies. An independent director with no connection to the company other than their directorship is called an independent non-executive director (Onunuka et al., 2024).

Board Composition

Boards of directors are essential elements in most definitions of corporate governance. They reveal the formal link between owners and managers responsible for medium-scale enterprises' day-to-day operations. Enhancing the perception of corporate accountability and thus reducing the pressure on a government to play a role in corporate decision-making is a vital goal (Dzigba, 2015).

Good Governance and Tax Compliance

Citizens of countries are interested in governance quality because it is linked to the benefits they receive from the government. According to Johnson & Omodero (2021), public governance quality is the process of selecting, evaluating, and replacing a country's leadership and the government's ability to effectively and efficiently handle the country's resources fairly and equitably. According to Alabede et al. (2011), good governance concerns power in the public sector and how society conducts its affairs and administers its resources). They claimed that excellent governance produces a sound tax system, but poor governance has the reverse result. Therefore, a better tax system with strong governance increases compliance. If the government fails to provide the residents with public amenities and infrastructure, it may drive them to disobey tax regulations. The most alarming feature of Nigeria's economy is that, due to its lacklustre commitment to good governance, it has consistently ranked among the least advanced developing nations in terms of the wise use of its resources from taxation and other sources (Okwori & Sule, 2016). According

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to Azeez (2009), many people will pay taxes voluntarily if it is considered that the government is an accountable entity, which reduces the need for coercion and generally promotes tax compliance.

THEORETICAL FRAMEWORK

Economic Deterrence Theory

The deterrence theory, developed by Beccaria (1764) and Bentham (1781), is premised on dealing with the challenges of tax compliance to seek an enforcement mechanism that can be complemented or substituted by the appeal to the citizen's tax morality. The theory states that taxpayers could be motivated to render their tax liabilities when there is more to gain or avoid by adhering to tax rules and regulations. According to Alabi et al. (2024), the theory views taxpayers as rational beings who decide how it affects them. The traditional theory of tax compliance is referred to as "deterrence theory", which is based principally on the assumption of fear of detection and punishment (Allingham and Sandmo, 2012). However, Kornhauser (2007) argues that the deterrence theory, which is based on the methods of enforcement through audit and penalties, explains only a small fraction of actual voluntary tax compliance levels, as it has such poor explanatory power because it assumes that the decision to comply is based solely on a cost-benefit analysis in which people rationally weigh the benefits of non-compliance against the cost of detection and penalties.

It highlights the reasons for low tax compliance among medium-scale enterprises. Moreover, high tax morale could reduce tax evasion and avoidance among medium-scale enterprises. Thus, financial literacy, trust in governance, and income level could be boosted to improve tax compliance among medium-scale enterprises. Another key point in this theory is that taxpayers are rational beings who seek to maximise their benefits, even at the expense of public tax revenue. Thus, tax administrators must be better at conducting sensitisations and awareness campaigns concerning tax compliance.

Despite the validity of the theory, its limitations have led to criticism. Firstly, it is impossible to precisely identify the causes or reasons behind crime, especially tax evasion (Perabavathi and Zainol, 2017). Thus, saying that evading tax has more benefits than paying tax might not be the reason for tax evasion; after all, some people go to jail. Not all taxpayers evade tax based on rationality; for some, it might simply be on a whim or because the opportunity presented itself (Alabi et al., 2024).

Empirical Review

Ige et al. (2023) conducted a study on "Good Governance and Tax Compliance among SMEs in Nigeria: A Moderating Role of Socio-economic Factors." The researchers examined how transparency, accountability, and government responsiveness influence tax compliance among small and medium-scale enterprises in Nigeria. The collected data were analysed using descriptive statistics, structural equation modelling, Ordinary Least Squares (OLS), and regression analysis. The findings concluded that good governance has a positive and statistically significant

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relationship with tax compliance among SMEs in Nigeria, demonstrating that effective governance improves tax compliance within this sector. It was recommended that the government should exhibit transparency, accountability and responsiveness to build public trust in the operators for tax compliance.

Ikuomola and Igbekoyi (2024) conducted a study on "Tax Ethical Values and Tax Responsiveness of Micro, Small and Medium Scale Enterprises in South-West, Nigeria." the influence of tax ethical principles on tax non-responsiveness among micro, small, and medium-sized enterprises (MSMEs) in the South Western states of Nigeria was evaluated. A Questionnaire was administered to 400 micro, small, and medium enterprises (MSMEs). It was found that the presence of a consistent regulatory tax framework, a well-defined tax payment deadline, and a transparent payment procedure positively impacted the timely tax payment of Micro, Small, and Medium Enterprises (MSMEs). The study recommends that the government should provide funds towards infrastructure and technology enhancements aimed at expediting and streamlining the tax payment process.

Olaniyan (2020) evaluated the effect of tax compliance and good governance in Nigeria. Secondary data sources were obtained from relevant literature, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications. Data were tested using the Ordinary Least Square Linear Regression model. It was found that, among other things, all the coefficients of the explanatory variables in a model are statistically significant to good governance except tax evasion. The study concluded that voluntary and compulsory tax compliance are both components of tax compliance that enhance good governance for the country's development. The study recommends, among others, that to ensure sustainable good governance, the generation of tax revenue must be sufficient by complying with tax efficiently and judiciously.

Otuya and Akpoyibo (2022) examined board structure as a determinant of corporate governance disclosure practices of listed companies in Nigeria. The study adopted cross-sectional and longitudinal research designs. It used content analysis of corporate financial statements and a modified corporate governance disclosure checklist based on the NCCG (2018) standard to examine the level of disclosures by sampled industrial goods firms from 2016 to 2020. It was found that board independence is a significant determinant of corporate governance disclosures. The study recommends that more ethnic minorities participation in boardroom matters be encouraged.

Salaudeen and Abdulwahab (2021) conducted a study on "Corporate Governance Mechanism and Tax Compliance: The Nigerian Experience. The impact of good corporate governance attributes on the tax compliance behavior of listed firms in Nigeria from 2012 to 2016 was analysed. The findings revealed a negative relationship between board size and tax compliance, while gender diversity, auditor profile, ownership concentration, and institutional ownership showed no significant effects. It was recommended that firms should adopt an optimal balance of managerial and non-managerial ownership to ensure compliance.

Salawu and Salawu (2023) investigated factors affecting tax compliance among small and medium scale Enterprises (SMEs) which operate within Lagos State. The sample size was limited to 171 Yaba Local Council Development Area SMEs. The research hypotheses were tested at a 5%

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significance level using the Pearson Correlation Coefficient. Findings revealed that, among the variables evaluated, tax awareness significantly impacts tax compliance. It was recommended that there should be appropriate dissemination of information as to how and how the government spends tax revenue generated to ensure increased tax compliance among SMEs in Lagos State.

Tsekpo (2020) study on the topic "Corporate Governance Compliance by Medium Scale Enterprises (SMEs): Global Review Perspective." It was revealed that corporate governance compliance can significantly assist SMEs by infusing better management practices, more vigorous internal auditing, and greater opportunities for growth in Ghana and other countries. It was recommended that corporate governance awareness among SMEs in Ghana should be taken as a priority for them to adopt the principles of corporate governance best practices, and governments should set up unique corporate governance codes for medium-scale enterprises in Ghana to address their peculiar structure and needs.

Uchechera (2017) studied "Corporate Governance and Management of Small and Medium Scale Enterprises in Lagos – Nigeria." The study examined how corporate governance in SMEs would influence operational management. This study considered 500 SME owners, representing all the SME owners in Lagos State. Data was analysed using mean scores, one-sample t-test and regression ANOVA. It was found that good corporate governance was accepted to promote strategic guidance of SMEs for effectively monitoring their environment and is a significant factor in improving internal control and efficiency. The study recommends that greater awareness needs to be created in SMEs of the usefulness of considering the issue of corporate governance to earn the dividend therefrom.

METHODOLOGY

The survey research design was adopted. Primary data (quantitative) was used for this research study. The SMEDAN report of 2023 showed that Lagos State has a total number of 11,643 registered Small and Medium-scale Enterprises (SMEs). Therefore, this represents the entire population of the study. The simple random sampling technique was adopted. From the population, the sample size is 372, which was determined using an online statistical calculator, a survey system provided on www.surveysystem.com/sscalc. The study findings were presented using tables and mean, percentages and frequency for interpretation, and the multiple regression analytical tool was used to analyse the data.

Model Specification

The model for this study is in line with the objective of this research. Therefore, the functional form of the model is analysed below:

Y = f (X1, X2, X3)………………………………….. (1)

From equation 1, the model can be stated in econometric form as:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\ldots+\varepsilon_I$$

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Where:

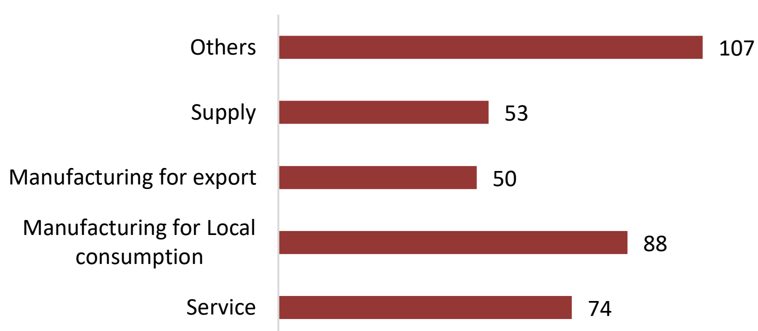
- Y: Ethical tax behavior (dependent variable)
- β_0: Constant of the equation (baseline ethical tax behavior when all predictors are zero)
- X1: Board Independence
- X2: Board Composition
- X3: Board Size
- β1,β2,β3: Unknown coefficients indicating the magnitude and direction of the relationship between each independent variable and YYY
- Ɛi: Error term

RESULTS AND DISCUSSIONS

This section analyses the collected data, utilising quantitative methods. The questionnaire results are outlined, followed by analysing research questions, hypothesis testing, and a discussion of key findings. Each question was examined, and the open-ended section highlighted the main discussions

Analysis of Questionnaires

Figure 1: **Nature of Business of the SMEs**



Source: Field Survey, 2025

The total number of respondents in the survey was 372, reflecting the distribution of SMEs across various business sectors and highlighting their diverse nature. The "Others" category had the highest representation, with 107 respondents indicating that their businesses fall outside the explicitly listed industries. This was followed by 88 respondents engaged in manufacturing for local consumption, emphasising the importance of domestic production among SMEs.

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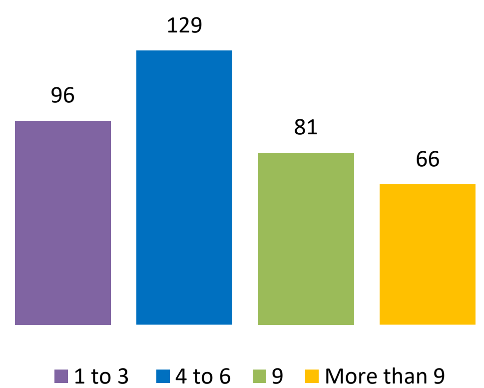
Additionally, 74 respondents reported operating in the service sector, while 53 identified their business as supply-based. Lastly, 50 respondents stated that their businesses focus on manufacturing for export, making it the least represented category. This suggests that fewer SMEs prioritise international markets than local production and service-oriented businesses.

Location of the business

Participants' responses highlight how business location influences SMEs' access to regulatory support, enforcement, and financial advisory services. Urban SMEs tend to have higher compliance due to better regulatory oversight, access to tax consultants, and greater awareness of tax laws. They also benefit from government initiatives and training programs. In contrast, SMEs in semi-urban or rural areas face challenges such as limited advisory services, weaker enforcement, and lower compliance awareness, leading to higher tax avoidance or inaccurate filings.

Figure 2: **Size of your SME's board of directors?**



Source: Field Survey, 2025

Most SMEs have a board size of 4 to 6 members, with 129 respondents indicating this range, suggesting that SMEs often maintain moderately sized leadership teams for decision-making. This is followed by 96 respondents who reported having a board size of 1 to 3 members, reflecting a preference for smaller, more centralised governance in some businesses. Additionally, 81 respondents stated that their board size comprises exactly nine members, while 66 respondents indicated having more than nine members on their board. The lower representation of larger boards suggests that SMEs generally opt for leaner governance structures, likely to enhance efficiency and decision-making processes.

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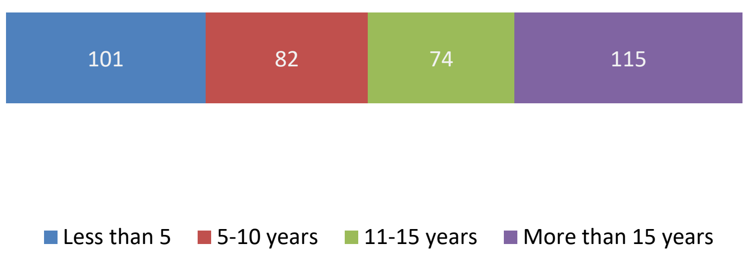
Figure 3: **How long has your SME been in operation?**



Source: Field Survey, 2025

The largest group consists of individuals with more than 15 years of experience, as indicated by 115 respondents. This suggests that a significant portion of SME leadership and workforce comprises highly experienced professionals, likely contributing to business stability and strategic decision-making. Those with less than 5 years of experience follow closely, with 101 respondents, highlighting a notable presence of newcomers in the SME sector, possibly indicating industry growth and fresh talent entering the market. Additionally, 82 respondents reported having 5 to 10 years of experience, while 74 respondents had 11 to 15 years of experience. The balanced distribution across experience levels suggests a mix of both seasoned professionals and emerging talent within SMEs, which can foster innovation and sustainability in business operations.

Hypothesis Testing

Hypothesis One

$H_0$1: There is no significant relationship between board composition and voluntary disclosures or compliance of SMEs in Lagos State.

Table 1**: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.112[a]	.013	.010	1.425

a. Predictors: (Constant), Board Composition

Source: Field Survey, 2025

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Table 1 shows the model summary. The R value (0.112) indicates a weak positive correlation between board composition and voluntary disclosure. The R Square value (0.013) suggests that only 1.3% of the variance in voluntary disclosure is explained by board composition, indicating a weak explanatory power. The Adjusted R Square (0.010) confirms that the model describes a small portion of the variation. The results show a weak positive correlation ($R = 0.112$, $R^2 = 0.013$), meaning board composition explains only 1.3% of the variation in voluntary disclosure. While small, this effect is still significant ($p = 0.031$), allowing us to reject the null hypothesis (H_{02}). This aligns with Vitola et al., (2020), who argued that agency theory suggests boards with independent directors encourage transparency to mitigate agency conflicts.

Table 2**: ANOVA[a]**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.546	1	9.546	4.703	.031[b]
	Residual	750.999	370	2.030		
	Total	760.546	371			

a. Dependent Variable: Voluntary Disclosure
b. Predictors: (Constant), Board Composition
Source: Field Survey, 2025

Table 2 results indicated that there is a significant difference between the means of the groups at a significance level of 0.05, -statistic (4.703) and p-value (0.031) indicate that the regression model is statistically significant at the 5% level ($p < 0.05$). This means that board composition has a statistically significant effect on voluntary disclosure, allowing us to reject the null hypothesis (H_{02}).

Table 3**: Coefficients[a]**

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.721	.135		12.793	.000
	Board Composition	.112	.052	.112	2.169	.031

a. Dependent Variable: Voluntary Disclosure
Source: Field Survey, 2025

Table 3 shows the coefficient. The constant ($B = 1.721$, $p = 0.000$) suggests that when board composition is absent or zero, the baseline voluntary disclosure level is 1.721. The coefficient for board composition ($B = 0.112$, $p = 0.031$) is positive and significant, indicating that for each unit increase in board composition, voluntary disclosure increases by 0.112 units. The t-value (2.169) further supports the statistical significance of board composition's impact. Since the p-value

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(0.031) is less than 0.05, we reject the null hypothesis (H_{02}) and conclude a significant relationship exists between board composition and voluntary disclosures in SMEs in Lagos State. However, the relatively low R-squared value suggests that while board composition does influence voluntary disclosures, other factors also play a significant role.

Hypotheses Two

H_02: There is no significant relationship between board size and tax avoidance behaviour of SMEs in Lagos State.

Table 4**: Test Statistics**

	Board Size	Tax avoidance behaviour
Chi-Square	10.097[a]	4.989[a]
Df	4	4
Asymp. Sig.	.039	.288

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 74.4.

Source: Field Survey, 2025

Decision: In interpreting the results presented in the table, it is important to note that a p-value of less than 0.05 is considered statistically significant, indicating that the null hypothesis can be rejected.

The Chi-Square test results in Table 4 provide insights into whether board size influences tax avoidance behavior. The Chi-Square value for Board Size (10.097, $p = 0.039$) is statistically significant at the 5% level ($p < 0.05$), suggesting that board size has a significant impact on tax avoidance behavior.

The Chi-Square value for Tax avoidance behaviour (4.989, $p = 0.288$) is not significant ($p > 0.05$), meaning that for this specific variable, board size does not significantly affect tax avoidance behavior. Since at least one of the tests indicates a significant relationship, we reject H_{03} and conclude that board size has some influence on tax avoidance behavior among SMEs in Lagos State. The findings suggest that board size plays a role in tax avoidance behavior, reinforcing the need for SMEs to have balanced board compositions that enhance oversight while maintaining efficiency.

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DISCUSSION

The study investigated the impact of corporate governance practices on ethical taxpayer behavior among small and medium-scale enterprises (SMEs) in Lagos State. Two hypotheses were tested to assess the relationship between key governance factors, such as board composition and board size, and various aspects of tax compliance and voluntary disclosure.

The first hypothesis (H_o1) suggested no significant relationship exists between board composition and voluntary disclosures or compliance among SMEs in Lagos State. The model summary ($R = 0.112$, $R^2 = 0.013$) revealed a weak positive correlation, indicating that board composition accounts for only 1.3% of the variation in voluntary disclosures. Despite the small effect size, the results remained statistically significant ($p = 0.031$), leading to the rejection of the null hypothesis. The ANOVA test confirmed the significance of the regression model ($F = 4.703$, $p = 0.031$). Moreover, the coefficient analysis ($B = 0.112$, $t = 2.169$, $p = 0.031$) suggested that an increase in board composition positively impacts voluntary disclosure levels. These findings align with Jensen and Meckling's (1976) agency theory, which posits that independent board members enhance transparency and reduce agency conflicts. While board composition does influence voluntary disclosures, the low R-squared value indicates that other factors also contribute to disclosure practices among SMEs.

The second hypothesis (H_o2) examined the relationship between board size and tax avoidance behavior of SMEs in Lagos State. The Chi-Square test results showed that board size had a statistically significant effect on tax avoidance behavior ($\chi^2 = 10.097$, $p = 0.039$), leading to the rejection of the null hypothesis. However, the Chi-Square value for tax avoidance behavior itself ($\chi^2 = 4.989$, $p = 0.288$) was not statistically significant, suggesting that while board size influences tax avoidance behavior, the effect is not uniform across all measures. These results indicate that larger boards may enhance tax oversight and compliance, though efficiency concerns must also be considered. Prior studies have found similar trends, with researchers arguing that an optimally sized board enhances decision-making and regulatory compliance (Boivie, et al., 2016).

CONCLUSION AND RECOMMENDATION

The findings indicate that board composition plays a role in SMEs' tax compliance behavior, though the extent of its influence varies. While independent board members can enhance financial discipline and adherence to tax obligations, their effectiveness depends on several factors, including board expertise, regulatory environment, and access to financial advisory services. SMEs operating in urban areas tend to have better tax compliance due to enhanced awareness and support structures (Musimenta et al., 2017). The study also highlights the need for targeted training programs and policy interventions to support SMEs in improving tax compliance and minimising financial risks. Therefore, SMEs should consider appointing board members with financial and tax expertise to enhance compliance and decision-making processes. Encouraging SMEs to use digital tax filing and accounting software can help streamline compliance and reduce errors.

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