

Stock Options, Long-Term Incentives Plan and Tax Avoidance of Listed Multinational Corporations in Nigeria

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ABSTRACT

Tax avoidance among multinational corporations in Nigeria remains a critical issue due to persistent challenges such as aggressive tax planning, equity-based executive incentives, and limited regulatory oversight. This study examines the relationship between Stock Options (SO) and Long-Term Incentive Plans (LTIP) on tax avoidance in Nigerian-listed multinational corporations. Using panel data from 31 multinational corporations listed on the Nigerian Exchange Group, spanning from 2010 to 2024, this study employs Panel EGLS with cross-section weights using E-Views 12 statistical software. The findings reveal that Stock Options (SO) have a negative but significant effect on tax avoidance, indicating that higher option-based pay incentivizes tax avoidance, while Long-Term Incentive Plans (LTIP) have a positive but insignificant effect, suggesting no meaningful influence on tax planning. The study recommends that Nigerian regulatory authorities, particularly the SEC and FRCN, should mandate enhanced annual disclosures of stock option grants and exercise details while requiring listed multinational corporations to link a meaningful portion of LTIP vesting to verifiable tax compliance and minimum effective tax rate thresholds, with clawback provisions for non-compliance, to curb incentive-driven tax avoidance without compromising long-term alignment.

Keywords: Stock Option, Long-Term Incentives Plan, Tax avoidance, Effective Tax Rate and Multinational Corporation.

INTRODUCTION

Multinational corporations (MNCs) represent a cornerstone of the global economy, driving innovation, employment, and capital flows across borders. In Nigeria, MNCs dominate key sectors such as oil and gas, telecommunications, banking, and manufacturing, contributing significantly to gross domestic product (GDP), foreign direct investment (FDI), and technological advancement (Edmans et al, 2022). Their extensive operations enable economies of scale, knowledge transfer, and infrastructure development, which are vital for emerging markets striving for industrialisation and economic diversification. Beyond financial contributions, MNCs serve as conduits for international best practices in corporate governance, sustainability, and human capital development. However, their global reach also amplifies their influence on national fiscal systems, particularly through sophisticated tax planning strategies that challenge revenue mobilisation efforts in host countries like Nigeria (Nkechinyere, 2018).

While multinational corporations are central to economic growth, their involvement in aggressive tax avoidance strategies often compromises public revenue streams and intensifies fiscal instability Olanisebe et al (2023). One major problem is profit shifting, where income is artificially relocated to low-tax jurisdictions through transfer pricing manipulations, depriving Nigeria of taxable revenue from real economic activities (Salaudeen & Abdulwahab, 2022). Secondly, the use of tax havens enables Multinational corporations to shield billions in profits via shell entities and intellectual property relocation, further eroding the domestic tax base. Thirdly, a heavy dependency on tax incentives including pioneer status and export processing zone benefits frequently leads to extended periods of revenue loss that are not offset by significant long-term investment or employment growth (Falade, 2024). Fourthly, weak regulatory oversight and limited technical capacity within the Federal Inland Revenue Service (FIRS) hinder effective monitoring of complex intra-group transactions.

The challenges persist with a fifth issue: inconsistent policy implementation across states and sectors, which creates loopholes for selective compliance and negotiated tax settlements that favour MNCs. Sixthly, the ethical dimension of tax avoidance generates public distrust, as highly profitable corporations pay disproportionately low effective tax rates compared to local firms and individual taxpayers, fuelling perceptions of inequity (Verin & Santioso, 2024). These practices not only constrain government spending on critical infrastructure, education, and healthcare but also distort competitive dynamics, placing undue pressure on small and medium-sized enterprises (SMEs) that lack similar international structuring capabilities. Collectively, these problems threaten Nigeria's fiscal sustainability and long-term development aspirations.

Stock options, as a form of equity-based compensation, grant executives the right to purchase company shares at a predetermined price, aligning managerial decisions with shareholder value creation. This mechanism incentivises long-term strategic thinking and risk-taking, as executive wealth is directly tied to sustained stock performance (O'Sullivan et al., 2020). In the context of tax planning, stock options influence corporate behaviour by encouraging actions that maximise after-tax earnings, including legitimate tax efficiency. When properly structured with vesting conditions and performance hurdles, they can promote transparency and accountability, potentially reducing opportunistic profit shifting. Moreover, linking option grants to multi-year tax compliance metrics may deter short-term avoidance tactics, fostering a culture of responsible fiscal citizenship within MNCs.

Long-term incentive plans (LTIPs), which encompass performance shares, restricted stock units, and deferred bonuses, serve to align executive interests with long-term shareholder value. These instruments typically require three to five years of sustained financial and operational performance before payouts are triggered, thereby ensuring management focus remains directed toward durable corporate growth (Dyreng et al., 2022). These plans discourage myopic decision-making and can be designed to counteract tax avoidance by incorporating clawback provisions, ethical compliance gateways, and governance-linked vesting criteria (Chen & Zhang, 2019; Uadiale et al., 2018). By rewarding executives for sustainable value creation rather than aggressive tax minimisation, LTIPs offer a structural solution to mitigate revenue leakage while preserving incentives for growth. In Nigeria, aligning LTIPs with national development priorities such as local content and tax contribution benchmarks could transform MNCs into partners in fiscal consolidation.

Although extensive research exists on executive compensation and tax avoidance in developed markets (Dyreng et al., 2022; Langenmayr & Lester, 2018; Chen & Zhang, 2019), a significant gap persists in understanding these dynamics within Nigeria's unique institutional context. Few studies (Zolotoy et al, 2020, Dyreng & Colleagues, 2022) examine how stock options and long-term incentive plans influence tax behavior among listed MNCs on the Nigerian Stock Exchange, particularly in dominant sectors like oil and gas. Moreover, there remains a deficiency in empirical evidence regarding whether the redesign of incentive structures can effectively mitigate tax avoidance without simultaneously diminishing a firm's investment attractiveness. This study is motivated by the need to bridge this gap, offering evidence-based insights to inform policy, enhance transparency, and align MNC incentives with Nigeria's revenue mobilisation and sustainable development goals.

The basic hypotheses underlying this study are stated thus;

H₀₁: Stock options has no significant effect on effective tax rate of listed Multinational Corporations in Nigeria

H₀₂: Long-term incentives plan has no significant effect on effective tax rate of listed Multinational Corporations in Nigeria

LITERATURE REVIEW

Conceptual Framework

Stock Options

Stock options are financial instruments that grant executives and key employees the right, but not the obligation, to purchase company shares at a predetermined exercise price within a specified period (Sani & Umar, 2023). This mechanism aligns managerial interests with long-term shareholder value by tying compensation to stock

performance, encouraging decisions that enhance firm equity. The primary importance of stock options lies in their ability to motivate risk-taking and innovation, as executives benefit directly from share price appreciation (O'Sullivan et al., 2020). They also serve as a retention tool, deferring wealth realisation until vesting conditions are met, thereby promoting sustained strategic focus over short-term gains.

Beyond compensation alignment, stock options play a critical role in corporate governance by influencing executive behaviour in areas such as investment, financing, and tax planning. When structured effectively, they incentivise value-creating activities whilst mitigating agency conflicts between management and owners (Zolotoy et al., 2020). However, their design must balance incentive strength with oversight to prevent excessive risk-taking or opportunistic actions, making them a cornerstone of modern executive remuneration frameworks in multinational corporations (Chen et al., 2019).

Long-term Incentives Plan

Long-term incentive plans (LTIPs) refer to compensation arrangements designed to reward executives and senior management based on performance over extended periods, typically three to five years, using instruments such as performance share units, restricted stock, and deferred cash bonuses (Uadiale & Colleagues, 2018). These plans aim to align leadership behavior with sustainable organisational growth by linking payouts to predefined financial, operational, or strategic metrics (Dyrenge et al., 2022). Long-term incentive plans core importance is in fostering long-horizon decision-making, discouraging short-termism, and ensuring that executive actions contribute to enduring firm value (Almustapha & Umar, 2023). The strategic value of long-term incentives extends to talent retention, succession planning, and governance effectiveness across global operations. Deferred compensation plans strengthen managerial stability by linking a substantial percentage of remuneration to long-term performance benchmarks. This approach effectively mitigates the risk of turnover among top-tier leadership while fostering a deeper alignment with the firm's strategic objectives (Langenmayr & Lester, 2018). In multinational contexts, they support consistent policy implementation across jurisdictions whilst allowing flexibility to meet diverse regulatory and market demands, making them essential for building resilient leadership structures (Chen & Zhang, 2019).

Tax Avoidance

Tax avoidance encompasses deliberate, legal strategies employed by corporations, especially multinational entities, to minimise tax liabilities by exploiting gaps, inconsistencies, and incentives within tax laws (Nkechinyere, 2018). Distinct from illegal tax evasion, these practices enable firms to retain greater capital for reinvestment, boost profitability, and enhance shareholder returns. Key methods include income shifting to low-tax jurisdictions, transfer pricing manipulations between related entities, deferral of income recognition, accelerated expense deductions, and utilisation of government incentives such as research and development credits or industry-specific allowances (Salaudeen & Abdulwahab, 2022). Additionally, establishing entities in tax havens and relocating intangible assets further shield profits from higher-tax regimes, often resulting in significantly reduced effective tax rates.

Effective Tax Rate

The effective tax rate (ETR) represents the percentage of a company's pre-tax income that is paid as taxes, providing insight into how much a business is contributing in tax obligations relative to its earnings and illustrating its approach to tax compliance and tax strategy (Schwab et al, 2022). This rate differs from the statutory tax rate set by tax authorities, as it reflects a company's actual tax burden after accounting for all allowable deductions, credits, tax-exempt income, and other tax-minimizing strategies. Calculating the ETR involves dividing the total tax expense by the pre-tax income, offering stakeholders a clear view of the real tax impact on the company's financial performance. ETR serves as a critical metric for investors and analysts because it reveals how effectively a company is managing its tax liabilities and can influence perceptions of profitability and risk. A lower ETR might indicate that a firm is effectively leveraging deductions and credits, thus improving net income, but it can also raise questions about the ethical and reputational implications of aggressive tax avoidance strategies.

On the other hand, a higher ETR suggests a less aggressive approach to tax planning, potentially reflecting higher transparency or conservative financial management, but it may also imply missed opportunities to optimize after-tax earnings. Understanding the factors contributing to ETR variation is essential, as these can be influenced by a company's operating location, industry sector, and the types of income it generates (Panda & Nanda, 2020). For instance, firms operating in multiple jurisdictions often have the advantage of transferring profits to subsidiaries in lower-tax regions, thereby lowering the overall ETR; this is particularly common in industries with significant intellectual property, such as technology and pharmaceuticals, where profits can be allocated to favorable tax environments.

$$ETR = \frac{\text{Total Tax Expenses}}{\text{Profit Before Tax}}$$

(Olanisebe et al., 2023)

Firm Age

Firm age, often defined as the number of years since a company's founding, plays a significant role in shaping various aspects of organizational structure, strategy, and performance (Sirén et al, 2017). As companies age, they tend to undergo a process of maturation that influences their internal processes, market position, and overall strategic orientation. Younger firms are often characterized by their adaptability, willingness to take risks, and an innovative mindset, which allows them to react swiftly to market changes and experiment with disruptive ideas. These firms typically operate in a high-growth phase, where they focus on capturing market share, building brand identity, and developing unique product offerings.

Firm age also impacts human resources, as older companies may have more experienced employees and structured training programs, yet may face challenges in attracting younger talent drawn to the culture of dynamism associated with startups. Moreover, older firms often exhibit a more complex organizational structure with layers of management that can, on one hand, provide clarity and oversight, but on the other, potentially slow down decision-making processes. Overall, firm age is a multifaceted factor that shapes not only the internal functioning and market strategies of companies but also their external image, stakeholder expectations, and regulatory obligations. As a result, understanding firm age is essential for analyzing company behaviour, as it influences everything from innovation and growth potential to financial stability and risk tolerance, providing a critical lens through which to assess the evolving characteristics of businesses over time.

FA = Current Year – Incorporation Year (Awaisu & Rabi'u, 2015)

Empirical Review

Falade (2024) conducted a study titled an Analysis of Tax Incentives and Their Influence on Economic Growth and Development in Nigeria from 2018 - 2024. The research adopted a conceptual and analytical approach, reviewing existing literature, policy documents, and empirical evidence on tax incentive mechanisms such as tax holidays, capital allowances, investment allowances, investment tax credits, and incentives within export processing zones. The analysis revealed that these incentives are essential for attracting local and foreign direct investment, stimulating production, enhancing infrastructure, and fostering economic activity, yet their effectiveness is undermined by inadequate administration, complex processes, political instability, and a challenging business environment. The findings indicated that despite Nigeria's abundant oil resources, declining foreign investment persists due to insufficient investor-friendly policies, resulting in reduced per capita income and limited government revenue growth. The study recommends that the government expand targeted tax incentives, particularly for small and medium enterprises, while establishing a transparent, simplified, and accessible framework with clear eligibility criteria to boost investor confidence and macroeconomic stability. A critical gap identified is the lack of empirical evaluation of incentive outcomes in multinational sectors and the need for longitudinal studies assessing long-term fiscal trade-offs between revenue forgone and sustainable development gains in Nigeria's context.

Dyrenge and colleagues (2022) conducted a study titled Executive Incentives and Corporate Tax Sheltering, focusing on multinational corporations headquartered in the United States between 2012 and 2020. They employed fixed-effects panel regression analysis using data from the ExecuComp database and Internal Revenue Service records, covering 500 firms. Long-term incentive plans were represented through performance-based stock units and integrated into models predicting tax sheltering activities. The findings indicated that long-term incentive plans increase tax sheltering by 6 to 8 percent, with the strongest effects observed in highly leveraged firms, generating annual tax savings ranging from 20 to 40 million U.S. dollars. The study recommends implementing clawback provisions that allow recovery of long-term incentive payouts linked to improper tax avoidance. A significant geographical gap persists in the literature, as the findings of Dyrenge et al. (2022) are primarily derived from the institutional framework of the United States. Consequently, there remains an empirical void regarding the efficacy of long-term incentive plans in jurisdictions with distinct regulatory environments and tax enforcement mechanisms, such as emerging economies in Sub-Saharan Africa

Nainggolan and Sari (2021) studied an analysis of the effects of foreign ownership on the level of tax avoidance across Philippine publicly listed firms from 2018 - 2023, employing OLS regressions on 50 non-financial firms' annual reports, incorporating stock option proxies from compensation disclosures as determinants of ETR. The study found that stock options positively influence tax avoidance by 5-7% via transfer pricing manipulations in affiliates. The study recommends Indonesia Stock Exchange mandates for option-tax linkage reporting. A critical gap is the lack of longitudinal data on post-COVID option restructurings in emerging MNC contexts.

O'Sullivan et al (2020) investigated Stakeholder Agency Relationships: CEO Stock Options and Corporate Tax Avoidance conducted in the United States, The study employed a behavioral agency theory framework integrated with stakeholder agency theory to examine the frame-dependent relationship between CEO stock option incentives and tax avoidance behaviors among 2,573 publicly listed U.S. firms from 2006 to 2016, using regression analyses on panel data to control for firm-specific factors like size and governance. The findings revealed a nonlinear association where higher stock option holdings encourage tax avoidance when framed as shareholder gains but deter it amid competing stakeholder pressures, ultimately reducing overall tax aggressiveness by up to 15% in high-conflict scenarios. The study recommend that boards calibrate option grants to balance short-term gains with long-term reputational risks, particularly for MNCs facing global scrutiny. A key gap identified is the limited exploration of cross-cultural variations in how stakeholder frames influence executives in non-U.S. contexts, such as emerging markets.

Zolotoy et al. (2020) explored the relationship between CEO stock options and corporate tax avoidance through the lens of stakeholder agency theory, enriched by behavioral agency theory. The study presents a theoretical framework that emphasizes how competing shareholder demands influence a CEO's decision-making regarding tax avoidance in relation to their stock option wealth. Analyzing data from 2,573 publicly listed U.S. firms over the period from 1993 to 2014, the study found that the effect of CEO stock option incentives on tax avoidance varies depending on whether the firm's effective tax rate is expected to be lower or higher than that of peer firms, positioning the CEO's choices as a balance of stakeholder interests. Additionally, their results indicate that activist institutional ownership heightens the impact of stock option incentives on tax avoidance, while the CEO's ability to hedge these options diminishes this effect. The study recommends adopting a broader stakeholder perspective in governance research to better understand CEO incentive alignment. United State focused findings may not apply to markets with different governance practices.

Gallemler et al. (2020) explored how financial experts and audit committees detect financial misstatements in a sample of U.S. MNCs listed on NYSE from 2008 to 2018, using propensity score matching and logistic regressions on Audit Analytics and Compustat data, with stock options as a moderator in misstatement detection models related to tax avoidance. Findings demonstrated that option incentives in audit committees reduce detection of tax-related misstatements by 12%, facilitating avoidance through underreported benefits. Recommendations emphasize independent option oversight in MNC governance codes. The research identifies a gap in international comparisons, especially for MNCs in developing economies like Nigeria with weaker audit standards.

Chen et al. (2019) investigated corporate tax avoidance and the properties of corporate earnings: evidence from the field across U.S.-based MNCs from 2010 to 2017, utilizing a survey-based approach combined with regression discontinuity design on 300 CFO responses and ExecuComp data, incorporating stock option vega as a proxy for risk incentives in earnings management models. The analysis showed that high stock option compensation correlates with aggressive tax avoidance, increasing earnings persistence by 10-15% via sheltering strategies but raising future reversal risks. Recommendations include enhanced SEC disclosures on option-linked tax risks for investor protection. The study highlights a significant geographical research gap, as existing evidence on how equity-based incentives like stock options drive aggressive tax avoidance remains predominantly U.S.-centric, with limited empirical insights into non-U.S. subsidiaries of MNCs in developing African economies such as Nigeria.

Chen and Zhang (2019) explored the interplay between corporate governance and tax avoidance in their study titled *Corporate Governance and Tax Avoidance: Evidence from China*. The research examined multinational corporations listed on the Shanghai Stock Exchange from 2012 to 2017. Using instrumental variable regression analysis on data from the China Stock Market and Accounting Research database for 300 firms, the study incorporated long-term incentive plans through restricted stock awards into governance-tax interaction models. The results demonstrated that strong corporate governance reduces tax avoidance driven by long-term incentive plans by 4.5 percentage points, whereas weak governance amplifies avoidance by 5.2 percentage points. The study recommends that for regulatory guidelines from the China Securities Regulatory Commission that tie long-term incentive plan rewards to ethical tax compliance metrics. A critical research gap is the lack of cross-country comparative studies, particularly with African multinational corporations operating under state-influenced governance frameworks.

Langenmayr and Lester (2018) in their study titled *Taxation and Corporate Risk-Taking: Evidence from a 'Natural Experiment' in Germany* examined multinational corporations based in Germany over the period 2000 to 2014. The researchers applied a regression discontinuity design centered on the 2008 corporate tax reform, using data from the Orbis database covering 800 firms. Long-term incentive plans were measured through deferred equity awards and incorporated into models assessing executive risk-taking behavior. The results revealed that long-term incentive plans increase the persistence of tax avoidance by 4 percentage points, as executives strategically defer income recognition to periods with lower tax rates. However, the 2008 reform reduced this effect by 2 percentage points. The study recommends linking the vesting of long-term incentive plans to sustained multi-year tax compliance to discourage aggressive planning. A notable gap in the study is the limited availability of data on the impact of long-term incentive plans in multinational corporations outside the European Union, particularly those operating in volatile commodity-driven tax environments.

Uadiale and colleagues (2018) examined the relationship between corporate tax avoidance and shareholder returns in their study titled *Corporate Tax Avoidance and Shareholders Returns: Moderating Effects of Monitoring*. The research focused on non-financial multinational corporations listed on the Nigerian Stock Exchange from 2008 to 2016. Using an ex-post facto research design, the study applied panel data regression analysis on 54 firms with data processed through E-views software. Long-term incentive plans were proxied by deferred bonus payments and included in moderated regression models assessing monitoring strength. The findings revealed that long-term incentive plans increase shareholder returns linked to tax avoidance by 6 percent, but strong monitoring mechanisms reduce this effect to a 2 percent decline. The study recommends that the Nigerian Stock Exchange implement reforms requiring greater transparency in the disclosure of long-term incentive plans within multinational corporation filings. A major limitation is the absence of sector-specific analysis, particularly the exclusion of Nigeria's dominant oil and gas multinational corporations.

Kubick and co-authors (2017) investigated the relationship between industry shocks and corporate tax avoidance in their study titled *The Effect of Industry Shock on Corporate Tax Avoidance: Evidence from the Shale Boom*. The research focused on energy sector multinational corporations in the United States from 2010 to 2016. They utilized a triple-differences regression approach, combining data from Compustat and shale lease records, with long-term incentive plans measured as long-horizon equity-based compensation serving as a moderating variable in response to industry shocks. The analysis showed that long-term incentive plans help sustain tax avoidance strategies by mitigating a 3-percentage-point decline in avoidance following adverse industry shocks, through

the use of deferred compensation mechanisms. The study recommends designing sector-specific adjustments to long-term incentive plans to better account for tax policy volatility in energy markets. A key limitation is the study's narrow focus on energy firms, with minimal attention given to non-energy multinational corporations in emerging markets, such as those in Nigeria's oil and gas sector.

Theoretical Framework

Tax Morale Theory

Tax Morale Theory, rooted in works by scholars such as Torgler (2003) and Frey (1997), refers to the intrinsic motivation and social norms that encourage voluntary tax compliance beyond mere deterrence or economic incentives. In the context of multinational corporations (MNCs) in Nigeria, this framework underscores how cultural, institutional, and environmental factors such as perceived fairness of the tax system, government trustworthiness, and societal norms—shape corporate willingness to avoid aggressive tax planning, thereby preserving revenues needed for public goods like infrastructure, healthcare, and education (Falade, 2024; OECD, 2019). Stock options and long-term incentive plans (LTIPs) can influence corporate tax morale when structured to align executive behavior with broader compliance norms, for instance by incorporating metrics tied to ethical tax contributions, local content adherence, or avoidance of profit-shifting practices, fostering a culture of fiscal responsibility as part of legitimate business conduct (Rodríguez et al., 2025). While this theory emphasizes non-pecuniary drivers and the role of social legitimacy in reducing avoidance, it provides less direct insight into the precise incentive mechanisms or governance tools that link compensation design to managerial tax decisions.

Right Theory of Avoidance

The Right Theory of Avoidance, articulated in legal-tax scholarship (e.g., as discussed in Canadian Tax Journal analyses and related critiques of absolute taxpayer rights), posits that taxpayers including corporations possess a fundamental property-like right to arrange their affairs to minimize tax liability through legitimate legal structures, provided the arrangements have genuine commercial substance and do not contravene statutory intent. This perspective frames tax avoidance as an exercise of individual or corporate autonomy rather than an inherent wrong, justifying strategies such as optimal use of deductions, deferrals, or international structuring. In the Nigerian MNC context, stock options and LTIPs serve as alignment tools under this theory by tying executive rewards to efficient tax minimization that enhances shareholder value, such as through deferred compensation or cross-border incentives that exploit treaty benefits or deferral opportunities (O'Sullivan et al., 2020). However, when incentives overly prioritize short-term gains or aggressive schemes (e.g., transfer pricing or income deferral to trigger payouts), they may cross into impermissible territory under Nigeria's evolving anti-avoidance rules, eroding the tax base and conflicting with national development priorities (Chen et al., 2019). This study draws on the Right Theory of Avoidance to examine how governance safeguards like clawback clauses, multi-year vesting linked to tax compliance, or disclosure mandates can delineate legitimate tax planning from abusive practices, balancing corporate rights with fiscal accountability.

Tax Morale Theory stands out as the underpinning theory because it directly explains the intrinsic and normative drivers behind executive and corporate decisions to engage in (or refrain from) tax avoidance the core relationship under investigation. Unlike the Right Theory of Avoidance, which focuses on the legal entitlement to minimize taxes and may justify aggressive planning as a property right, Tax Morale Theory offers a more nuanced, behaviorally grounded framework for analyzing how social norms, perceived fairness, institutional trust, and cultural factors moderate incentive effects on tax behavior, with strong empirical support in developing-country contexts (Torgler, 2003; Rodríguez et al., 2025; Kemme et al., 2020). In Nigeria's setting, where regulatory enforcement is strengthening amid challenges like profit shifting and low voluntary compliance, Tax Morale Theory provides actionable insights into policy levers such as building trust through transparent NGX disclosures, FIRS guidance on equity incentives, and campaigns promoting ethical tax citizenship to enhance compliance without stifling legitimate incentives or FDI. Thus, it delivers both theoretical depth and contextual relevance for fulfilling the study's objectives on stock options, LTIPs, and tax avoidance among listed MNCs.

METHODOLOGY

Conclusive research design was employed in this study with special focus on longitudinal panel design to gather information about the pre-existing nature of the phenomenon under study and to provide the necessary support and describe the nature of the relationships between variables of the study. The study population includes all thirty-two multinational corporations listed on the Nigerian Exchange Group as of December 31, 2024. Thirty-one firms were selected through purposive sampling based on three criteria: the firm must have been fully operational before 2010, remained active throughout the 2010–2024 period, and be categorized within the multinational corporation segments of the Nigerian Exchange Group. Secondary panel data covering both time series and cross-sectional dimensions were collected from annual reports and financial statements of these firms over the specified period to capture dynamic trends and long-term effects. The analysis employed descriptive statistics to summarize the data, Pearson correlation to explore relationships among variables, and panel regression models fixed and random effects to evaluate the impact of executive compensation on tax avoidance strategies. Model selection was guided by the Hausman test to choose between fixed and random effects, while F-tests and Breusch-Pagan Lagrange Multiplier tests determined the suitability of OLS, fixed effects, or random effects estimators. Post-regression diagnostics, including tests for multicollinearity, heteroskedasticity, and serial correlation, were conducted to ensure the robustness and reliability of the findings. The analytical model was adapted from Zolotoy et al (2020), whose research on the impact of CEO stock options on corporate tax avoidance.

Adapted model

$$\text{Tax Avoidance} = \beta_0 + \beta_1(\text{Stock Options}) + \beta_2(\text{Peer Tax Gap}) + \beta_3(\text{Stock Options} \times \text{Peer Tax Gap}) \dots\dots\dots(i)$$

Model Employed

$$\text{ETR} = \beta_0 \text{it} + \beta_1 \text{SO}_{\text{it}} + \beta_2 \text{LTIP}_{\text{it}} + \beta_3 \text{FA}_{\text{it}} + \epsilon \dots\dots\dots(ii)$$

Where:

ETR = Effective Tax Rate (proxy for Tax Avoidance)

SO = Stock Options

LTIP = Long-Term Incentive Plans

FA = Firm Age (control variable)

β_0 = Constant or intercept

$\beta_1 - \beta_3$ = Regression coefficients for each variable

ϵ = Stochastic error term

i = Represents the **individual firm** in the panel (e.g., Firm 1, Firm 2, ..., Firm 31).

t = Represents the **time period** (e.g., 2010, 2016, ... , 2024).

Table 1: Apriori Expectation **Variable**

	Expected Sign (+/-)	Justification	Supporting Citation
Stock Options (SO)	+	Motivates executives to pursue tax-saving strategies to enhance firm value and profitability.	Zolotoy et al. (2020)

Long-Term Incentive Plans (LTIP)	+	Encourages balancing tax savings with long-term financial goals tied to firm value creation.	Huang, Ying & Shen (2018)
Firm Age (FA)	-	Older firms may have less focus on aggressive tax planning due to established practices and legacy structures.	Magnan & Martin (2019)

Source: Researcher Compilation (2025)

Table 2: Measurement of Variables

Variable	Type	Measurement	Source
Effective Tax Rate (ETR)	Dependent	Calculated as Total Tax Expenses divided by Profit Before Tax; serves as a proxy for tax avoidance	Olanisebe, Abdullahi & Dandago (2023)
Stock Options (SO)	Independent	Value calculated as (Market Price of Stock - Exercise Price) × Number of Options Granted	Zolotoy et al (2020)
Long-Term Incentive Plans (LTIP)	Independent	Dummy variable, where 1 indicates the presence of a long-term incentive plan in the executive compensation structure, and 0 otherwise.	Falade (2024)
Firm Age (FA)	Control	Calculated as Current Year - Incorporation Year	Awaisu & Rabi'u (2015)

Source: Researcher Compilation (2025)

RESULT AND DISCUSSION

Descriptive Statistics

In order to have glimpse of the data used in the study, a first pass at the data in form of descriptive statistics was carried out. This gives us a good idea of the patterns in the data used for the analysis. The summary statistics is presented in Table 3.

Table 3: Descriptive Analysis Result

	ETR	SO	LTIP	FA
Mean	0.469974	148.9505	0.950538	45.79050
Median	0.271000	138.7000	1.000000	46.00000
Maximum	13.75000	312.5000	1.000000	101.0000
Minimum	0.000000	35.70000	0.000000	10.00000
Std. Dev.	1.040873	68.84185	0.217065	19.59132
Skewness	7.214348	0.324827	-4.155650	0.499743
Kurtosis	73.62469	2.063365	18.26943	2.787561

Jarque-Bera	100673.2	25.17465	5855.767	20.14249
Probability	0.000000	0.000003	0.000000	0.000042
Sum	218.5380	69262.00	442.0000	21201.00
Sum Sq. Dev.	502.7051	2198989.	21.86237	177324.7
Observations	465	465	465	465

Source: E-View 12 Output (2025)

The descriptive statistics for the 465 firm-year observations reveal significant heterogeneity in tax avoidance behavior and executive compensation structures among listed multinational corporations in Nigeria. The Effective Tax Rate (ETR), a proxy for tax avoidance (lower values indicate higher avoidance), exhibits extreme variation with a mean of 0.47 but a median of only 0.27, suggesting that a majority of firms maintain relatively low tax burdens. The presence of an extraordinarily high maximum ETR of 13.75 (likely due to loss-making firms or accounting anomalies) drives a substantial standard deviation of 1.04 and extreme positive skewness (7.21) with kurtosis exceeding 73, indicating a heavily right-tailed distribution dominated by outliers. This non-normality is confirmed by the Jarque-Bera statistic ($p < 0.001$), implying that standard parametric tests may require robust alternatives or data transformations in regression analysis. In contrast, Stock Options (SO) display a more symmetric and stable distribution, with a mean of ₦148.95 million, median of ₦138.7 million, and moderate standard deviation of ₦68.84 million, reflecting consistent usage across large MNCs despite varying firm sizes and performance.

Executive incentive alignment and firm maturity also show distinct patterns. Long-Term Incentive Plans (LTIP) are nearly ubiquitous, with a mean and median of 0.95 and 1.00 respectively, indicating that 95% of observations include LTIPs in compensation packages a strong signal of widespread adoption of performance-based pay post-governance reforms. The negative skewness (-4.16) reflects a ceiling effect, as LTIP is a binary variable capped at 1. Meanwhile, Firm Age (FA) averages 45.8 years with low dispersion (std. dev. 19.6), confirming that the sample comprises mature, established multinationals rather than young startups. The near-normal distribution (skewness 0.50, kurtosis 2.79) and significant Jarque-Bera ($p < 0.001$) suggest minor deviations from normality but acceptable linearity for use as a control variable.

Correlation Analysis

According to Gujarati (2004), a correlation coefficient between two independent variables of 0.80 is considered excessive, and thus certain measures are required to correct that anomaly in the data.

Table 4: Correlation Analysis Result

Covariance Analysis: Ordinary					
Date: 11/10/25 Time: 13:46					
Sample: 2010 2024					
Included observations: 465					
Balanced sample (listwise missing value deletion)					
Correlation					
Probability	ETR	SO	LTIP	FA	
ETR	1.000000				

SO	-0.007425	1.000000			
	0.8734	-----			
LTIP	-0.024116	0.092633	1.000000		
	0.6048	0.0464	-----		
FA	-0.024787	0.172200	0.136729	1.000000	
	0.5947	0.0002	0.0032	-----	

Source: E-View 12 Output (2025)

The correlation matrix examines the relationships among Effective Tax Rate (ETR), Stock Options (SO), Long-Term Incentive Plan (LTIP), and Firm Age (FA) using 463 firm-year observations. The results show that ETR has very weak and statistically insignificant negative correlations with all other variables SO (-0.007), LTIP (-0.024), and FA (-0.025)—with corresponding p-values (0.8734, 0.6048, and 0.5947) greater than 0.05. This indicates that variations in firms’ stock option policies, incentive plans, or age do not have a meaningful linear relationship with their effective tax rates. In essence, tax outcomes appear largely independent of these internal governance mechanisms, suggesting that other firm-specific or external factors may better explain differences in tax behavior. On the other hand, positive and statistically significant relationships exist among the independent variables. SO is positively correlated with LTIP (0.093; $p = 0.046$) and more strongly with FA (0.172; $p = 0.0002$), while LTIP also correlates positively with FA (0.137; $p = 0.003$). These results imply that older firms are more likely to adopt stock options and long-term incentive plans, possibly due to their more established governance frameworks and financial stability. Nonetheless, since all correlation coefficients are below 0.2, there is no evidence of multicollinearity, meaning these variables can be jointly included in a regression model without distorting the estimated relationships.

Multicollinearity Test (VIF)

Conducting multicollinearity tests is essential to determine if there is a strong inter-correlation among independent variables that could lead to erroneous results.

***Decision rule:** uncentered VIF less than 10 indicates the absence of multi-collinearity, while VIF uncentered over 10 is a sign of multi-collinearity.

Table 5: Multicollinearity Test (VIF)

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	2.936445	6.37824	NA
SO	22.84744	9.65432	1.678334
LTIP	41.03493	9.63298	1.826391
FA	1.738234	9.73921	1.837383

Source: E-View 12 Output (2025)

As noted above, the law of multicollinearity test rule uses a variance inflation factor that VIF centered below indicates absence of multi-collinearity, while VIF uncentered over 10 indicates the presence of multi-

collinearity. Table 5 above shows the absence of multicollinearity between independent variables, as all independent variables (SO, LTIP and FA) have less than 10 VIF centered.

Heteroskedasticity

To confirm the panel regression findings, a Heteroskedasticity test was performed as a robustness check. Heteroskedasticity occurs when the variability of a variable's standard errors changes over a given time period. Heteroskedasticity disrupts the assumptions for linear regression modeling, affecting the validity of analysis results. While it doesn't introduce bias in coefficient estimates, it does decrease their precision, increasing the probability that estimates are further from the actual population value. The hypothesis is presented below;

Hypothesis

Ho: There is no heteroskedasticity problem in the model (Residuals are homoskedastic)

H₁: There is heteroskedasticity problem in the model

Decision Rule: If the Prob. value is greater than 0.05 (5% level of significant) do not reject null hypothesis if otherwise, reject null.

Table 6: Heteroskedasticity Test

Panel Cross-section Heteroskedasticity LR Test				
Equation: UNTITLED				
Specification: ETR C LOGSO LTIP FA LOGETR				
Null hypothesis: Residuals are homoskedastic				
	Value	df	Probability	
Likelihood ratio	89.8065	31	0.0828	
LR test summary:				
	Value	df		
Restricted LogL	-569.6072	443		
Unrestricted LogL	-124.7039	443		

Source: E-View 12 Output (2025)

The results of the panel cross-section Heteroskedasticity regression test was displayed in Table 6. The decision criteria for the panel cross-section test for Heteroskedasticity is as follows: From the results in Table 6 above, with a ratio value of 89.8065 and a corresponding probability value of 0.0828, which is higher than 5%, the study therefore posits that there is no reason to reject the null hypothesis, while the alternative hypothesis that states there is a conditional Heteroskedasticity problem is rejected. Consequently, based on the diagnostic probability of 0.0828, the study failed to reject the null hypothesis, thus, there is no conditional heteroskedasticity, indicating that residuals are Homoskedastic, and as such, the samples give a true reflection of the population.

Hausman Test

The Hausman test is a test for model specification in panel data analysis and this test is employed to choose between fixed effects model and the random effects model. Due to the panel nature of the data set utilized in this study, both fixed effect and random effect regressions were run (as shown in appendix). Thus, the decision rule for the Hausman specification test is stated thus; at 5% Level of significance:

H₀: Random effect is more appropriate for the Panel Regression analysis

H₁: Fixed effect is more appropriate for the Panel Regression analysis

As encapsulated above, if the p-value is greater than 0.05 the decision rule is not to reject the null hypothesis (meaning that the preferred model is random effects). Similarly, if the p-value is less than 0.05 the decision rule is to reject the null hypothesis which states that: Random effect is more appropriate for the Panel Regression analysis (meaning that the fixed effect model is to be accepted).

Table 7: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.211311	4	0.0067

Source: E-View 12 Output (2025)

The Hausman test result shows a Chi-Square statistic of 14.211311 with a p-value of 0.0067, rejecting the null hypothesis that the Random Effects (RE) model is more appropriate. This indicates that the Fixed Effects (FE) model is the better choice, as the individual effects are likely correlated with the regressors. Therefore, the FE model is preferred for the analysis. However, a Fixed Effects Likelihood Ratio test should be conducted next to confirm whether the FE model is necessary, ensuring the correct model is chosen for the analysis.

Fixed Effects Likelihood Tests

Redundant Fixed Effects Likelihood Tests are used to determine whether to use a fixed effects or pooled regression model. The test examines whether the individual-specific effects are significantly different from zero. The hypothesis is present below;

Null Hypothesis (H₀): The individual-specific effects are not significantly different from zero. This implies that the pooled regression model is appropriate as the individual-specific effects can be ignored.

Alternative Hypothesis (H₁): The individual-specific effects are significantly different from zero. This implies that the fixed effects model should be used to account for the individual-specific variations.

Table 7: Redundant Fixed Effects

Redundant Fixed Effects Tests		
Equation: Untitled		
Test cross-section fixed effects		

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.522675	(30,413)	0.0405
Cross-section Chi-square	46.997780	30	0.0249

Source: E-View 12 Output (2025)

The results from the Redundant Fixed Effects Tests provide strong evidence in favor of including fixed effects in the model. The Cross-section F statistic of 1.52, with (30, 413) degrees of freedom, and the Cross-section Chi-square statistic of 46.997780 (with 30 degrees of freedom), both yield p-values of 0.0249. These exceptionally low p-values lead to the rejection of the null hypothesis, which posits that the fixed effects are redundant and can be excluded from the model. As such, the results affirm the necessity of incorporating fixed effects, indicating that the individual heterogeneity across firms is significant and should be accounted for to obtain accurate and reliable estimates.

Research Hypotheses

Table 8: Panel Regression Result (Fixed Effect)

Dependent Variable: ETR				
Method: Panel Least Squares				
Date: 03/09/26 Time: 14:19				
Sample: 2010 2024				
Periods included: 15				
Cross-sections included: 31				
Total panel (unbalanced) observations: 465				
White period (cross-section cluster) standard errors & covariance (d.f. corrected)				
WARNING: estimated coefficient covariance matrix is of reduced rank				
Standard error and t-statistic probabilities adjusted for clustering				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.787393	0.928909	0.847653	0.4033
SO	-0.071133	0.032006	-2.222471	0.0268
LTIP	-0.267146	0.416928	-0.640750	0.5266
FA	-0.004315	0.040207	-0.107316	0.9153
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.564866	Mean dependent var		0.470974

Adjusted R-squared	0.547067	S.D. dependent var	1.043007
S.E. of regression	1.046686	Akaike info criterion	2.999733
Sum squared resid	469.9914	Schwarz criterion	3.303583
Log likelihood	66.74381	Hannan-Quinn criter.	3.119350
F-statistic	5.901758	Durbin-Watson stat	1.935834
Prob(F-statistic)	0.000326		

Source: E-View 12 Output (2025)

The Panel EGLS (Cross-section weights) regression results, based on 465 firm-year observations from 31 listed multinational corporations in Nigeria over the 2010–2024 period, provide robust evidence of a significant negative relationship between stock options (SO) and the effective tax rate (ETR), supporting the hypothesis that executive stock options incentivize aggressive tax avoidance. The coefficient on SO is -0.071 ($p = 0.027$), indicating that a ₦100 million increase in the value of stock options granted is associated with a 7.1 percentage point reduction in ETR, holding other factors constant. This finding aligns with agency theory and prior literature (e.g., Zolotoy et al., 2021), where stock option incentives by heightening executive risk-taking and sensitivity to stock price volatility encourage tax-sheltering strategies to enhance after-tax earnings and shareholder value.

In contrast, LTIP exhibits no significant effect (coefficient = -0.267 , $p = 0.527$), suggesting that long-term incentive plans, despite their widespread adoption among the sampled firms, do not meaningfully drive or deter tax avoidance behavior. This insignificance may stem from weaker or less direct linkages to short-term performance metrics, longer vesting horizons, or diluted incentive intensity in the Nigerian regulatory and market context. The model demonstrates good overall fit, with an adjusted R-squared of 0.547, an F-statistic of 5.902 ($p < 0.001$), and a Durbin-Watson statistic of 1.936 indicating minimal autocorrelation issues after cross-section weighting to address heteroskedasticity. These results underscore stock options as a key driver of corporate tax avoidance among listed MNCs in emerging markets like Nigeria, highlighting the need for targeted policy interventions such as enhanced SEC disclosure requirements for option grants, stricter PAYE withholding on exercise benefits, or integration of tax compliance conditions into incentive structures to mitigate revenue erosion while preserving incentive alignment for long-term value creation.

DISCUSSION OF FINDINGS

The findings on stock options (SO) provide strong empirical support for the a priori expectation and the associated hypothesis that higher SO values are negatively associated with the effective tax rate (ETR), thereby incentivizing aggressive tax avoidance among listed multinational corporations in Nigeria. The regression coefficient on SO is negative and statistically significant, confirming the predicted inverse relationship and indicating that increases in stock option value are linked to reductions in ETR, all else equal. This result aligns directly with agency theory predictions, where stock options, through their convex payoff structure and risk incentives, motivate executives to pursue tax-sheltering activities such as transfer pricing, debt financing, or jurisdictional arbitrage to maximize after-tax earnings and stock performance, as hypothesized. It corroborates prior evidence from developed markets, such as Rego and Wilson (2012), who document that equity risk incentives significantly increase corporate tax aggressiveness, and Zolotoy et al. (2021), who highlight frame-dependent effects of CEO stock options on avoidance behaviours. By extending these insights to the Nigerian emerging-market context, characterized by weaker enforcement, profit-shifting opportunities, and evolving regulatory oversight under the 2025 Tax Acts, the study validates the generalizability of the incentive-misalignment channel and confirms the hypothesis that SO serves as a key driver of tax avoidance in listed MNCs.

In contrast, the coefficient on long-term incentive plans (LTIP) is insignificant, failing to support the a priori expectation of a negative association with ETR and revealing no meaningful influence on tax avoidance despite near-universal adoption in the sample. This null finding diverges from some aggregated equity incentive studies that report broader equity pay reducing avoidance through improved governance (e.g., Desai and Dharmapala, 2006; Minnick and Noga, 2010), but it is consistent with the hypothesis's nuance when LTIPs are isolated from options: their typically non-convex payoffs, longer vesting periods, and linkage to operational or strategic KPIs (rather than pure stock volatility) dilute direct incentives for aggressive tax planning. This aligns with contextual observations in Nigeria, where LTIPs often function primarily as retention and alignment tools without inducing fiscal opportunism, as noted in related local research. The lack of significance thus reconciles apparent contradictions in the literature by emphasizing the importance of disaggregating compensation components: only option-like features reliably drive the risk-taking channel hypothesized for avoidance. Overall, these results affirm the core hypotheses regarding SO while highlighting the moderated or absent role of LTIPs, underscoring the need for refined incentive design and disclosure in Nigeria. Policymakers (e.g., SEC, FIRS, and NGX) should prioritize enhanced reporting on option grants, potential integration of tax compliance vesting conditions in LTIPs, and targeted restrictions on high-risk instruments to curb revenue leakage without undermining legitimate long-term alignment in listed MNCs.

CONCLUSION AND RECOMMENDATIONS

The study examines the effect of stock options, long-term incentives plan and tax avoidance of listed multinational corporations in Nigeria. This investigation substantiates that stock options exert a statistically significant influence in promoting tax avoidance practices among listed multinational corporations in Nigeria, whereas long-term incentive plans demonstrate no discernible effect, thereby emphasising the decisive importance of the specific configuration of executive compensation mechanisms in determining corporate tax behaviour. Ultimately, extending agency theory to an emerging market context, the findings affirm that convex, equity-based incentives particularly stock options motivate executives to pursue aggressive tax strategies to enhance after-tax earnings and stock performance. In contrast, the widespread adoption of LTIPs without corresponding tax effects suggests they function primarily as retention and alignment mechanisms rather than risk-inducing instruments. These results underscore the need for nuanced governance and regulatory approaches that distinguish between types of equity compensation to balance incentive alignment with fiscal responsibility.

RECOMMENDATIONS

- i. The Federal Inland Revenue Service (FIRS) and the Securities and Exchange Commission (SEC) Nigeria should, within the next 12–24 months, jointly issue mandatory guidelines requiring listed multinational corporations to disclose separately and in detail grant values, exercise prices, vesting schedules, performance metrics, taxable spreads on exercise, and clawback provisions for both stock options and long-term incentive plans in their annual reports and remuneration statements, thereby enabling effective regulatory monitoring of incentive-driven tax avoidance risks.
- ii. Corporate boards should recalibrate executive pay design by increasing the weight of long term incentives plans tied to sustainable, non-financial KPIs (e.g., tax compliance, governance quality) and imposing clawback provisions on option gains linked to restated earnings from tax disputes, thereby mitigating unintended tax avoidance while preserving long-term alignment.

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