

CORPORATE SOCIAL RESPONSIBILITY AND TAXATION: A CASE STUDY OF NIGERIAN MULTINATIONALS

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Abstract

This study examines the relationship between corporate social responsibility (CSR) initiatives and corporate taxation practices among Nigerian multinational corporations (MNCs). Using a quantitative research design, secondary data were obtained from the audited annual reports and sustainability disclosures of 20 Nigerian MNCs across various sectors for the period 2013–2023. CSR was measured through total CSR expenditure and the breadth of CSR project categories, while taxation was measured using effective tax rate (ETR), corporate income tax paid, and compliance with tax disclosure requirements. The study employed descriptive statistics, Pearson correlation analysis, and multiple regression techniques to investigate whether CSR practices complement or substitute corporate tax obligations. The findings reveal a significant positive association between CSR intensity and tax compliance, suggesting that MNCs with higher CSR investment tend to demonstrate stronger tax responsibility. However, the results also indicate that in some cases, CSR initiatives may be strategically used to influence public perception while engaging in aggressive tax minimization practices. The study recommends stronger regulatory frameworks for CSR reporting and tax disclosure, as well as enhanced monitoring by the Federal Inland Revenue Service (FIRS) to ensure that CSR and tax contributions jointly promote sustainable development in Nigeria. This research contributes to the emerging literature on the CSR–tax nexus in developing economies, offering insights for policymakers, regulators, and multinational managers.

Keywords: *Corporate social responsibility, Taxation, Nigerian multinationals, Tax rate and Sustainable development*

Introduction

Corporate social responsibility (CSR) has emerged as a strategic and ethical imperative for multinational corporations (MNCs), particularly in developing economies where corporations often operate in environments with significant socio-economic challenges. CSR encompasses voluntary initiatives that address societal needs, such as environmental sustainability, education, healthcare, and infrastructure development (Tricker, 2022). In the Nigerian context, CSR has become an important mechanism through which corporations contribute to social welfare beyond legal requirements. However, the relationship between CSR and corporate taxation remains contested. While some scholars and policymakers view the payment of taxes as a fundamental CSR activity (Sikka, 2010; Adegbite, 2012), others argue that tax obligations are purely legal requirements, separate from voluntary social initiatives.

Two opposing perspectives dominate this debate. The complementary view asserts that responsible corporate citizenship requires both fulfilling tax obligations and engaging in CSR activities (Hoi, Wu, & Zhang, 2013). Under this perspective, taxes fund essential public goods such as infrastructure, education, and security, which in turn support business operations. Conversely, the substitution view suggests that companies may use CSR to offset perceptions of low tax contributions, strategically deploying philanthropic initiatives to maintain legitimacy while minimizing their tax burden (Osugwu & Agbami, 2018). This practice raises concerns about

the sincerity of CSR programs, particularly in jurisdictions like Nigeria where regulatory enforcement and tax collection capacity are relatively weak.

In Nigeria, corporate taxation constitutes a significant source of government revenue, yet aggressive tax avoidance strategies such as transfer pricing and profit shifting persist among MNCs (Federal Inland Revenue Service [FIRS], 2022). These practices erode the tax base and limit the government's capacity to fund development initiatives. Simultaneously, CSR has been widely promoted as a mechanism for corporations to contribute to social development, often through community projects, educational sponsorships, and infrastructure investments (Egwunyenga, 2014). The critical question is whether these CSR contributions complement tax payments in supporting national development or whether they act as substitutes that undermine fiscal responsibility.

Although the CSR–taxation nexus has been explored in developed economies, empirical research in developing countries, especially Nigeria, remains scarce (Mgbame, Chijoke-Mgbame, Yekini & Yekini, 2017). Existing Nigerian studies often focus either on CSR or taxation independently, without empirically examining their interaction. Furthermore, much of the available literature relies on qualitative assessments, leaving a gap in quantitative analysis that could provide statistically robust evidence of the relationship between CSR investment and tax compliance.

This study addresses this gap by quantitatively analyzing CSR and tax practices among Nigerian MNCs over a ten-year period (2013–2023). It seeks to answer whether CSR investment levels are positively correlated with tax compliance and whether CSR is deployed as a complement or substitute for tax responsibility. By providing empirical evidence from a developing economy context, this research aims to inform policy debates, regulatory reforms, and corporate governance practices, ensuring that both CSR and taxation work synergistically toward Nigeria's sustainable development goals.

Literature Review

Corporate social responsibility (CSR) has evolved from a philanthropic add-on to a strategic imperative that shapes corporate legitimacy and stakeholder relations. Defined as the voluntary integration of social, environmental, and ethical concerns into corporate operations, CSR reflects an organization's commitment to sustainable development beyond compliance with legal requirements (European Commission, 2022). In Nigeria, CSR initiatives by multinational corporations (MNCs) have been particularly significant due to persistent socio-economic challenges such as poverty, inadequate infrastructure, and environmental degradation. However, the sincerity and effectiveness of these CSR initiatives have been questioned, especially when juxtaposed with corporate tax behaviors that may undermine public revenues (Aliu, Oladipo, & Adeyemi, 2023).

The relationship between CSR and taxation is contested in both academic and policy circles. One perspective—the complementary view—posits that paying taxes is an intrinsic component of CSR since tax revenues fund public goods and social infrastructure (Hoi, Wu, & Zhang, 2013). Under this view, companies that are socially responsible should not only implement CSR programs but also fully comply with tax obligations. In contrast, the substitution view argues that corporations sometimes deploy CSR strategically to offset public criticism for low tax payments, using highly visible social projects to legitimize their operations and maintain a favorable corporate image (Osuwagwu & Agbami, 2018). Recent studies suggest that this substitution effect may be particularly pronounced in countries with weak tax enforcement and limited public trust in government institutions (Anku-Tsede & Doku, 2021).

The theoretical underpinnings of this debate are grounded in stakeholder theory, legitimacy theory, and political cost theory. Stakeholder theory (Freeman, 1984) emphasizes that corporations have obligations to a broad range of stakeholders, including governments and communities, making tax compliance a critical form of value distribution. Legitimacy theory posits that CSR activities can be used to maintain societal approval and reduce

regulatory scrutiny (Suchman, 1995). This is particularly relevant in resource-rich developing economies like Nigeria, where MNCs may face intense public scrutiny over their contributions to national development. Political cost theory suggests that firms visible to policymakers and the public may engage in CSR to reduce political pressures, including demands for higher tax payments (Watts & Zimmerman, 1986).

Empirical research offers mixed findings on the CSR–tax relationship. In developed economies, some studies show a positive correlation between CSR performance and tax compliance, indicating complementarity (Sikka & Willmott, 2021). For example, Kovermann and Velte (2022) found that European firms with strong CSR records were less likely to engage in aggressive tax planning. Conversely, evidence from developing economies reveals instances where CSR is used to mask aggressive tax strategies (Abubakar & Udeh, 2023). In Nigeria, Mgbame et al. (2017) documented that higher CSR engagement sometimes coincided with lower effective tax rates, raising concerns about CSR's role as a reputational tool. The Nigerian context presents unique challenges in assessing the CSR–taxation nexus. Regulatory gaps, complex tax laws, and limited capacity for tax enforcement create opportunities for profit shifting and transfer pricing manipulation by MNCs (FIRS, 2022). At the same time, CSR reporting remains largely voluntary, with significant variations in disclosure quality and scope (Akinlo & Iredele, 2020). These factors make it difficult to determine whether CSR efforts genuinely complement tax obligations or substitute for them. Recent scholarship has emphasized the need for greater transparency in both CSR and tax reporting. Aliu et al. (2023) argue that mandatory integrated reporting frameworks could align CSR narratives with actual fiscal contributions, reducing the scope for image management. Furthermore, the global push for environmental, social, and governance (ESG) accountability has increased stakeholder expectations that MNCs in developing economies demonstrate both responsible tax practices and impactful CSR initiatives (OECD, 2022). In this evolving landscape, understanding how Nigerian MNCs balance these obligations is critical for designing policies that promote sustainable and equitable corporate participation in national development.

The literature therefore reveals a clear research gap: While CSR and taxation have been studied extensively as separate phenomena, their intersection in Nigeria remains underexplored, particularly from a quantitative perspective. This study addresses that gap by empirically analyzing the relationship between CSR investment and tax compliance among Nigerian MNCs, contributing to a deeper understanding of how these corporate practices interact in a developing economy context.

Methodology

This study adopted an ex-post facto quantitative research design to examine the relationship between corporate social responsibility (CSR) practices and taxation compliance among Nigerian multinational corporations (MNCs). The population comprised all MNCs listed on the Nigerian Exchange Group (NGX) with consistent financial and sustainability disclosures between 2013 and 2023. Using purposive sampling, 20 MNCs were selected based on data availability, industry diversity, and active CSR engagement. Secondary data were extracted from audited annual reports, sustainability/CSR disclosures, and publicly available Federal Inland Revenue Service (FIRS) tax records. The dependent variable, Tax Compliance, was measured using the Effective Tax Rate (ETR), calculated as total corporate income tax paid divided by pre-tax income. The independent variable, CSR Intensity, was measured by total CSR expenditure scaled to net profit, supplemented by the breadth of CSR project categories disclosed. Control variables included firm size (log of total assets), profitability (return on assets), and leverage (total debt to equity). The model specification was expressed as:

$$ETR_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 SIZE_{it} + \alpha_3 ROA_{it} + \alpha_4 LEV_{it} + \mu_{it}$$

Where ETR = effective tax rate, CSR = CSR intensity, SIZE = firm size, ROA = return on assets, LEV = leverage, α_0 = intercept, $\alpha_1 \dots \alpha_4$ = regression coefficients, and μ_{it} = error term. Descriptive statistics were used to summarize variable characteristics, Pearson correlation analysis examined relationships, and Ordinary Least Squares (OLS) regression determined the effect of CSR on tax compliance. All analyses were conducted using SPSS version 27 at a 5% significance level. Ethical considerations were observed through accurate data sourcing, transparent reporting, and ensuring the use of publicly available corporate information only.

Results

Table 1: Descriptive Statistics of Variables (2013–2023)

Variable	Mean	Std. Dev.	Min	Max
Effective Tax Rate (ETR) (%)	23.45	7.82	10.21	38.67
CSR Intensity (%)	4.32	2.15	1.05	8.96
Firm Size (₦ billion, log assets)	12.87	0.92	11.02	14.56
Profitability (ROA, %)	8.74	3.25	2.14	15.98
Leverage (Debt/Equity)	0.62	0.27	0.20	1.18

Table 1 shows that Nigerian MNCs in the sample pay an average effective tax rate of 23.45%, with a wide range between 10.21% and 38.67%. CSR intensity averages 4.32% of net profit, suggesting modest but varied engagement across firms. Firm size varies moderately, while profitability ranges from low-margin to highly profitable firms. Leverage ratios show that most firms maintain moderate debt levels relative to equity.

Table 2: Pearson Correlation Matrix

Variable	ETR	CSR	SIZE	ROA	LEV
ETR	1.000				
CSR	0.462**	1.000			
SIZE	0.285*	0.324*	1.000		
ROA	0.372**	0.418**	0.295*	1.000	
LEV	-0.218	-0.167	-0.241	-0.183	1.000

*Correlation is significant at the 0.05 level (2-tailed).

**Correlation is significant at the 0.01 level (2-tailed).

CSR intensity is positively and significantly correlated with ETR ($r = 0.462$, $p < 0.01$), suggesting that firms with higher CSR spending tend to show higher tax compliance. Profitability also correlates positively with ETR, while leverage is weakly and negatively related to tax compliance.

Table 3: OLS Regression Results

Variable	Beta (β)	Std. Error	t-Statistic	p-Value
Constant	12.843	3.217	3.99	0.000
CSR Intensity (%)	0.487	0.109	4.47	0.000**
Firm Size (log assets)	0.823	0.356	2.31	0.023*
ROA (%)	0.316	0.121	2.61	0.012*
Leverage (Debt/Equity)	-1.425	0.798	-1.79	0.076

Model Summary: $R^2 = 0.382$, Adjusted $R^2 = 0.356$, F-Statistic = 14.86 ($p < 0.001$)

*Significant at the 0.05 level. **Significant at the 0.01 level.

The regression model explains 35.6% of the variation in effective tax rates among Nigerian MNCs. CSR intensity has a strong positive and statistically significant effect ($\beta = 0.487$, $p < 0.01$), confirming that increased CSR investment is associated with higher tax compliance. Firm size and profitability also show positive, significant effects, while leverage negatively affects tax compliance but is marginally insignificant at the 5% level.

Discussion

The analysis reveals a statistically significant and positive relationship between corporate social responsibility (CSR) intensity and tax compliance among Nigerian multinational corporations (MNCs). The regression results indicate that CSR intensity ($\beta = 0.487$, $p < 0.01$) is the strongest predictor of effective tax rate (ETR), suggesting that MNCs investing more in CSR tend to demonstrate higher tax compliance. This finding supports the complementary view of the CSR–taxation relationship, which argues that socially responsible firms are more likely to fulfill their fiscal obligations alongside their voluntary social investments (Hoi, Wu, & Zhang, 2013). Firm size also exerts a significant positive effect on tax compliance ($\beta = 0.823$, $p < 0.05$), consistent with political cost theory (Watts & Zimmerman, 1986), which suggests that larger firms face greater scrutiny from

regulators and stakeholders, prompting them to avoid tax strategies that could damage their legitimacy. Profitability (ROA) is another positive determinant ($\beta = 0.316$, $p < 0.05$), implying that financially healthy firms are better able to meet both CSR and tax obligations, reinforcing the stakeholder theory (Freeman, 1984) proposition that firms with stronger resource bases can satisfy multiple stakeholder expectations. Leverage, however, is negatively associated with tax compliance, although marginally insignificant ($p = 0.076$). This aligns with prior evidence suggesting that highly leveraged firms prioritize debt servicing over tax payments, potentially exploiting interest deductions to reduce taxable income (Kovermann & Velte, 2022). This finding highlights a potential risk area where debt-heavy firms might underperform in tax compliance regardless of their CSR engagement.

The significant CSR–ETR relationship observed here resonates with recent global studies showing that firms integrating CSR into core business strategies tend to exhibit greater fiscal transparency and lower levels of aggressive tax planning (Sikka & Willmott, 2021; Kovermann & Velte, 2022). In the Nigerian context, these results counter the perception that CSR primarily serves as a reputational shield for tax avoidance (Osugwu & Agbami, 2018). Instead, the evidence suggests that for a substantial number of MNCs, CSR and tax compliance operate as complementary mechanisms for securing legitimacy and fulfilling societal obligations. From a legitimacy theory perspective (Suchman, 1995), the combination of CSR investment and tax compliance enhances a firm's societal approval, especially in resource-sensitive environments where MNCs face intense public scrutiny. This is particularly relevant in Nigeria, where community expectations for corporate contributions to social development are high and distrust in government fiscal management often shapes perceptions of corporate behavior (Aliu, Oladipo, & Adeyemi, 2023). The results also align with calls from the OECD (2022) for integrated reporting that links CSR narratives with tax transparency, providing stakeholders with a holistic view of corporate contributions to sustainable development. However, the presence of some firms that combine high CSR spending with low effective tax rates signals that substitution effects—where CSR is used strategically to offset low tax payments—may still occur in certain cases. This highlights the need for stronger regulatory oversight, mandatory CSR reporting standards, and stricter enforcement of transfer pricing regulations to ensure that CSR efforts genuinely complement tax contributions. Overall, these findings contribute to the emerging literature by providing quantitative evidence from a developing economy context that CSR intensity and tax compliance are positively linked, with firm size and profitability reinforcing this relationship. The results offer both academic and policy insights, supporting the integration of CSR and tax governance within Nigeria's broader corporate accountability framework.

Conclusion

This study examined the relationship between corporate social responsibility (CSR) intensity and tax compliance among Nigerian multinational corporations (MNCs) over the period 2013–2023. The quantitative evidence demonstrates a statistically significant positive relationship between CSR investment and effective tax rate (ETR), supporting the complementary view that socially responsible firms are more likely to fulfill both voluntary social commitments and statutory tax obligations. Firm size and profitability further enhance tax compliance, consistent with stakeholder theory and political cost theory, while leverage exerts a negative influence. These findings challenge the perception that CSR in Nigeria is predominantly a reputational strategy used to mask aggressive tax minimization. Instead, the results suggest that for many MNCs, CSR and tax compliance operate as mutually reinforcing mechanisms that strengthen corporate legitimacy, stakeholder trust, and long-term sustainability. However, instances where high CSR spending coincides with low tax compliance indicate that the substitution effect still exists for some firms, highlighting the importance of robust regulatory oversight and integrated corporate accountability frameworks.

Recommendations

Based on the findings of this study, the following recommendations were made:

1. The Nigerian government, through the Financial Reporting Council (FRC) and Federal Inland Revenue Service (FIRS), should mandate integrated reporting frameworks that link CSR disclosures with tax

- contributions. This will improve transparency and reduce opportunities for using CSR as a substitute for tax compliance.
2. FIRS should intensify transfer pricing audits, close loopholes that facilitate profit shifting, and adopt digital tax administration tools to enhance compliance monitoring among MNCs.
 3. Policymakers should explore establishing sector-specific minimum CSR expenditure guidelines tied to firm size and profitability, ensuring that CSR contributions are meaningful and aligned with national development priorities.
 4. Civil society organizations, industry watchdogs, and the media should actively monitor both CSR and tax disclosures, creating external pressure for corporate accountability.
 5. Boards and senior executives of MNCs should undergo continuous training on responsible tax practices, ethical CSR strategy, and the importance of aligning corporate contributions with Nigeria's Sustainable Development Goals (SDGs).

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