



## The Presence of Women on the Board and Tax Avoidance: Evidence from Tehran Stock Exchange

**Mohammadreza Hoseini**

Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran

**Mahdi Safari Gerayli**

Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran

(Corresponding author)

Mehdi.safari83@yahoo.com

### ABSTRACT

Today, women are considered as one of the main pillars of corporate decision making, which can contribute to the development and promotion of corporate initiatives and projects within the framework of the development of trust and confidence of shareholders and society. The purpose of this research is to investigate the association between the presence of women on boards of directors and tax avoidance in firms listed on the Tehran Stock Exchange. To do so, a sample of 97 companies were surveyed during the years 2011 to 2015 and tested using multivariate regression models based on panel data. The results of the research showed that the presence of women on corporate boards reduces corporate tax avoidance. Moreover, Additional analysis reveals that the negative association between presence of women on boards and corporate tax avoidance is more pronounced in larger firms. The findings of current study not only fill existing gaps in the field, but also help investors, tax regulators and other accounting stakeholders make informed decisions

### Keywords:

Presence of Women on Board, Tax Avoidance, Book Tax Difference, Effective Tax Rate.



## 1. Introduction

The extant literature on board gender diversity has concluded that the presence of women on corporate boards can increase firm value. Nevertheless, empirical studies have proposed contradictory ideas in this regard (Carter et al, 2010: 398). Some studies revealed that firms with gender diversity on their boards show better performance as women bring about significant changes in human resources and business (Campbell & Miñguez-Vera, 2008: 436), while some concluded differently (Bohren & Strom, 2010: 1284; Adams & Ferreira, 2009: 292), and some other studies reported no relationship (Carter et al, 2010: 393). The issue of women on corporate boards can be considered either socially or economically. Socially speaking, like men, women are deserved to occupy managerial roles (van der Walt, & Ingley, 2003: 219). The economic insights also require organizations to select qualified individuals for managerial positions regardless of their gender. Gender discrimination prevents organizations from making optimal use of their human resources (Singh et al, 2001: 208). Studies indicate that women are equipped with valuable skills that can improve corporate performance, thereby increasing firm value (Huse & Solberg, 2009: 114; Campbell & Miñguez-Vera, 2008: 436). On the other hand, corporate tax policies such as tax avoidance exert negative impact on governments' performance. However, taxpayers, especially firms, believe that tax is a burden of responsibility for both firms and stakeholders (Adams and Ferreira, 2009: 293). Since people are skeptical about paying a lot of taxes to tax authorities, they employ tax strategies to minimize, remove or postpone their tax liabilities due. According to the social responsibility theory, since societies allow companies to continue their operations, they consider themselves committed to their societies, thus tending to pay tax on the compensation. These companies believe that paying tax is a major factor that contributes to the development of a society. Following the agency theory, on the other hand, owners mostly focus on the wealth and interests of the companies under their control, thereby avoiding paying tax. Therefore, the amount of tax paid is correlated with the type of ownership (Beasley, 1996). Attempts made to make a balance between these two veins in the corporate governance system have resulted in an ever-increasing emphasis on the role of female directors on corporate boards because women are believed to be more

effective in monitoring the process of making a balance between shareholders' and society's interests than men (Hillman & Dalziel, 2003: 386). However, most Iranian studies conducted in the field have ignored this issue. Therefore, this study aims to investigate the impact of the presence of female directors on corporate tax avoidance. Various factors like the importance of tax revenue in government's five-year economic development plan as well as the lack of sufficient research have motivated the researchers to carry out the present research. The findings of current study not only expand the theoretical foundations of the past literature in finance and accounting, but also help tax regulators, capital market regulators and other accounting information users make informed decisions.

## 2. Literature Review

### Tax avoidance

Tax avoidance refers to using tax laws in a way which is not intended by the government. It is a way of avoiding tax or minimizing the amount of tax to be paid (Ziabigdeli, 2004: 45). In accounting literature, tax avoidance has a broad and narrow definitions. Broadly speaking, tax avoidance is defined as the ability to pay a low amount of tax per dollar of reported pre-tax financial accounting income. According to this definition, all transactions that affect corporate tax liabilities are a kind of tax avoidance. This definition does not make any differences between actual activities and tax utility on the one hand, and reducing tax via avoidance activities and lobbying for obtaining tax benefits, on the other hand (Jahromi, 2012: 22). Following this definition, tax avoidance can be considered as a continuum of tax planning strategies on which legal tax avoidance (like investment on bonds) is located on one end and illegal tax avoidance occupies the other end (Hanlon and Hitzman, 2010: 129). Some defines tax avoidance as a legal activity for reducing tax liabilities. In the narrow aspect, the conceptual distinction between tax evasion and tax avoidance seeks its root in the legal activities of tax payers. Tax evasion is an illegal activity, whereas tax avoidance occurs in accordance with tax laws, and thus leaving no space for taxpayers to be concerned about being discovered (Ibrahimi et al, 2017: 153).

### **Women on corporate boards**

Among various functions that board of directors perform, its monitoring role is of paramount importance to analysts and decision-makers. In fact, they alter corporate actions and behaviors in response to corporate operational environment (such as market needs and competitive pressure). Regarding the opportunistic behaviors or development of corporate activities, these changes can increase or decrease the information asymmetries and agency problems (Meyer and Rowan, 1997: 342; DiMaggio and Powell, 1983: 151). Upper echelon theory believes that organizations consider various characteristics like age, gender, educational level, socioeconomic background and job experience to employ their CEO and members of the board since they believe that board of directors have to operate in line with corporate goals and policies (Hambrick and Mason, 1984: 199). Among the mentioned characteristics, gender plays a major role in corporate decision making process (Lee and James, 2007: 229). It is believed that CEO gender has a significant effect on his/her function in the firm. Despite rare conclusive findings in the field, some scholars like Ng (2008: 61), Litzky and Greenhouse (2007: 639) and Sealy and Singh (2010: 288) maintained that the presence of women on corporate boards implies the organizational concerns about human resource, timely disclosure, accountability to shareholders, higher flexibility to environmental changes, etc., which all suggest changes in corporate trends and policies in comparison to past. The results of studies indicate that gender bias against women in different countries prevents corporates from employing women in the board of directors, particularly as a CEO (Adler, 1994: 25; Tung, 2004: 243). As such, Brockfield et al (2015) documented that although women constitutes 50% of labor force in Canada, less than 20% of them works in middle-level positions, only 8% is members of corporate boards, and, disappointingly, only 3% occupies CEO position since women are believed to be unable to solve problems within complex competitive industries. Other studies reveal that firms with women on their boards are more transparent (Aihijji et al, 2016). Also, Insch et al (2008) suggest that the unequal ratio of men to women in boards' composition has contributed to the intensity of information asymmetry in these firms. Few theories have considered the issue of gender diversity in board of directors. One of the most famous theories

which has examined the issue is the socio-psychological theory (Sepasi and Abdoli, 2016), which aims to explore the condition and impact of minorities (like women) within a social matrix (Westphal and Milton, 2000: 368). Some evidence indicates that minor members of corporate boards can create motivation and encourage diverging thinking among other members to be able address wider range of problems (Moscovici & Faucheux, 1972: 152; Nemeth, 1986: 25). The socio-psychological theory predicts that majorities can exert too much influence on decision-making process and mostly resist against the influence of minorities (Tanford and Penrod, 1984: 193). Williams and Orielly (1998) asserted that members of heterogeneous groups typically cooperate less, yet experience more emotional challenges. These arguments reveal that the minor presence of female directors on corporate boards is associated with consuming more time and exerting negative effect on firm value. For example, Westphal and Milton (2000) concluded that minor directors have more significant effects on corporate decision making than major directors.

### **Women on Corporate boards and Tax avoidance**

The presence of women on corporate boards has gained a lot of importance due to their effective role in monitoring managerial performance. Female directors do their best to balance the responsible behaviors of firms towards society and shareholders (Lanis and O'Reilly, 2011:54). Adams and Ferreira (2009) contend that the presence of women on corporate boards has managed to contain managerial opportunistic behaviors and prevent their false benevolence with the intention to avoid tax to maximize shareholders' interests. Baldry (1987) also showed that women make better decisions than men to promote the transparency of financial reports. Roger and King (1992) found that the presence of women on corporate boards will enhance corporate social responsibility due to more dependency on ethics, thereby contributing to attitudinal changes in tax ethics and timely payment of tax. Moreover, Fallen (1999) maintains that the spiritual values of firms will be increased via women presence on corporate boards, thereby resulting in a reduction in tax avoidance.

A substantial part of prior studies on women's role on corporate boards is dedicated to investigating their role in increasing firm value and decreasing information asymmetry, yet few studies have considered their role in reducing tax avoidance. Richardson and Lanis (2016) selected 300 Australian firms during the years 2006-2010 to examine the impact of women's presence on corporate boards on reducing tax avoidance. To do so, they chose 16 firms with external ownership, 11 firms with state ownership and 18 firms with family ownership, among which no one had a female director on its board. However, other 255 firms had at least one female director in their board compositions. The results of their study revealed that women's presence on corporate boards can exert a significant influence on reducing tax avoidance. Srinidhi et al (2011) investigated 94 firms with female directors in their board compositions and concluded that the presence of women on corporate boards will considerably promote the transparency of financial statements and reduce the risk of corporate tax avoidance, thereby leading to a fall in information asymmetry. Peni and Vahama (2010), on the other hand, reported that the presence of female directors on corporate boards will minimize the likelihood of frauds and incomplete disclosure of financial statements. Carter et al (2003) documented that decisions made in firms with women on their boards are more independent than those made in firms without female directors, thus improving the quality of corporate decision making. Sepasi and Abdoli (2015) sought to answer whether the presence of women on corporate boards can bring economic benefits to companies. Their findings indicate that women on corporate boards positively affect the financial performance, thereby improving firm value.

Ownership mechanism is a major controlling tool in corporate governance. Some of the owners' incentives are influenced by stakeholder theory. Accordingly, since societies pave the way for firms to continue their operations for an indefinite period of time, they decide to compensate for this advantage by paying their taxes. On the other hand, agency theory states that owners pay particular attention to the wealth and interests of the companies they own and consider tax payment worthless to their companies. Therefore, the level of tax avoidance is associated with type of ownership (Beasley, 1996). Since boards of directors play major roles in monitoring and supplying

necessary resources (Hillman and Dalziel, 2003: 386), the presence of women on corporate boards are claimed to promote these two managerial functions, thereby increasing the efficiency of monitoring corporate boards (Terjesen et al, 2009: 322). The results of study carried out by Lanis and Richardson (2011) and Adamz and Ferriera (2009) confirm that the presence of women on corporate boards, like the presence of external directors, can reduce firm's tax avoidance as a result of better surveillance on financial performance. Therefore, the research hypothesis will be designed as follows:

**H<sub>1</sub>:** *The presence of female directors on corporate boards is significantly associated with tax avoidance.*

### 3. Methodology

As an applied, ex post facto and descriptive research, this study collects the required data from the firms listed on the Tehran Stock Exchange during the years 2011-2015. The collected data are analyzed using multivariate regression method and econometrics models. The statistical population needs to meet the following conditions:

- 1) They were listed in Tehran Stock Exchange prior to 31 March, 2011.
- 2) To increase comparability, their fiscal year ended in March
- 3) No changes in their fiscal year or activities happened during this period.
- 4) They are not included in financial intermediate and investment companies.
- 5) They should not have more than a six-month hiatus during the proposed period.

After applying the above limitations, a sample of 97 firms were selected. The research data were drawn from Stock Exchange websites and Rahavard Novin software. The final data were analyzed using Eviews and Stata softwares.

### The research Models and Variables

The dependent, independent and control variables of the study are measured as follows:

#### Dependent variables

The dependent variable of the current study is the tax avoidance, which, similar to Richardson and Lanis, 2016; Pourheidari et al, 2014; Arabsalehi and Hashemi, 2015, is proxied by two measures. The first

measure is book-tax difference (BTD) which is obtained through subtracting accounting profit (Pre tax earnings) from taxable profit, which is in turn obtained from dividing tax cost by statutory tax rate. In order to homogenize the collected data, this variable will be divided by book value of total assets. The second measure of tax avoidance is effective tax rate (ETR), which is calculate as follows:

$$ETR_{i,t} = \frac{TTE_{i,t}}{PTE_{i,t}}$$

where

$ETR_{i,t}$ : the effective tax rate of firm  $i$  in year  $t$ ,  $TTE_{i,t}$ : total tax cost of firm  $i$  in year  $t$  and  $PTE_{i,t}$ : Pre tax earnings of firm  $i$  in year  $t$ . Since decreased effective tax rate leads to a rise in the level of tax avoidance, the calculated tax rates are multiplied by -1 to obtain a direct measure for tax avoidance.

### Independent variable

The presence of women on corporate boards is the independent variable of the study which, as a dummy variable, takes the value of 1 if women are present in boards' composition, 0 otherwise.

### Control variable

**Firm size:** consistent with Higeinz et al (2015) and Richardson and Lanis (2016), the present research uses the log of corporate annual net sales to measure firm size.

**Financial leverage:** in line with Arabsalehi and Hashemi (2015) and Richardson and Lanis (2016), financial leverage, which is measured as dividing total debt by total assets, is employed as the research control variable.

**Profitability:** consistent with Kin et al (2017) and Dianatideilami et al (2015), return on equity is adopted as a proxy of profitability which is calculated by dividing net income by the market value of equity.

**Growth opportunities:** following Richardson and Lanis (2016), Kin et al (2017) and Mashayekhi and Sayyedi (2015), Market to-book value ratio of equity is adopted as the measure of growth opportunities.

To test the research hypotheses, the following multivariate regression model, adopted from Richardson and Lanis (2016), is employed:

$$TAX_{it} = \beta_0 + \beta_1 FEMALE_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROE_{it} + \beta_5 GWTH_{it} + \varepsilon_{it}$$

where

$TAX_{i,t}$  is one of two measures of tax avoidance for firm  $i$  in year  $t$ ,  $FEMALE_{i,t}$ : the gender of board composition of firm  $i$  in year  $t$ ,  $SIZE_{i,t}$ : firm size equals the log of corporate annual net sales of firm  $i$  in year  $t$ ,  $LEV_{i,t}$ : financial leverage, which is equal to the total debt divided by total assets in firm  $i$  in year  $t$ ,  $ROE_{i,t}$ :  $GWTH_{i,t}$ : net income-to-market value ratio of owners' equity in firm  $i$  in year  $t$ ,  $GWTH_{i,t}$ : growth opportunities for firm  $i$  in year  $t$  and  $\varepsilon_{it}$ : error components of the regression model.

Since the present study employs two measures of BTD and ETR to compute tax avoidance, the mentioned model is estimated for each measure. To estimate the research models, the panel data technique is used since it is superior to time-series cross-sectional models with respect to the number of observations, less likelihood of collinearity among variables and decreased biased estimation and heterogeneity of variance (Gujarati, 2009).

## 4. Results

Table 1 represents the descriptive statistics of the research variables, obtained from analyzing 485 firm-year observations during the years 2011-2015.

As can be seen, the average rate of effective tax is 15%, which, according to the statutory tax rate for listed firms (22.5%), point to the inconsistency between firms' tax status and tax policies.

Moreover, approximately 60% of the firms' assets are financed with debt. Additionally, the net income of the sample firms equals 8% of the market value of their owners' equity.

F-limer is first used to clarify whether the collected data are pooled or panel. According to the results presented in table 2, the significance level of the F-limer for either models is less than 0.05. Therefore, panel data were used to estimate the research models.

To explore the type of panel data (fixed or random effect methods), the Hausman test is used. As indicated in table 3, the models have to be estimated via fixed effects method.

**Table 1. Descriptive statistics for all variables**

Variables	N	Mean	Median	Minimum	Maximum	Std. Deviation
BTD	485	0.089	0.064	-0.047	0.512	0.121
ETR	485	-0.149	-0.138	-0.409	0.000	0.197
FEMALE	485	0.081	0.000	0.000	1.000	0.272
SIZE	485	12.015	11.882	9.865	14.563	0.684
LEV	485	0.597	0.586	0.091	0.834	0.302
ROE	485	0.083	0.076	-0.133	0.402	0.153
GWTH	485	2.164	1.832	-3.305	10.612	1.933

Notes: BTD book-tax difference ; ETR - effective tax rate ; SIZE - log of firm's total sales; LEV- Leverage measured as the ratio of total debt to total assets; ROE - return on equity defined as net income to market value of equity.; GWTH - firm growth opportunities , defined as the market value of equity divided by book value of equity

**Table 2. Results of F-limer for the research models**

Model	Measure of tax avoidance	F-statistics	Result
Model (1)	BTD	11.128**	panel data method
Model (2)	ETR	12.411**	panel data method

Notes: \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively .

**Table 3. Results of Hausman test**

Model	Measure of tax avoidance	Chi - Square Statistics	Result
Model (1)	BTD	13.105*	fixed effects method
Model (2)	ETR	15.186**	fixed effects method

Notes: \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively .

Moreover, to test whether the error terms have the skewness and kurtosis matching a normal distribution, Jarque-Bera test was used. Since the results of Jarque-Bera test for the research models are greater than 0.05, the normal distribution of the error terms, was confirmed. The results of likelihood ratio test, which is conducted to examine the heteroscedasticity among error terms, suggest a heteroscedasticity among them. To eliminate this problem, Generalized Least Square method was employed to estimate the research models. Also, to ensure the lack of multicollinearity among the explanatory variables, the multicollinearity test was undertaken using variance inflation factor (VIF). The results pointed to the lack of multicollinearity among the mentioned variables since the values of the test were lower than 10. Finally, as indicated in table 4, Durbin-Watson test was used to establish if there is a

serial autocorrelation among the error terms of the models. The results of testing the research hypothesis based on book-tax difference (BTD) and effective tax rate (ETR) as measures for tax avoidance are represented in table 4.

Considering F-statistics and its level of significance, one can conclude that all regression models are significant at 0.05 level. In addition, the results of Durbin-Watson statistics also confirm the lack of autocorrelation among the error terms of each regression models. As shown in the table, the estimated coefficient and t-statistics of the *FEMALE* is negative and significant at 0.05 level for both models, revealing a negative and significant association between the presence of women on corporate boards and the level of corporate tax avoidance. Therefore, the research hypothesis is accepted at 0.05 level.

**Table 4. Results of estimating the research model based on two tax avoidance measures.**

	(1)	(2)
Variable	TAX= BTD	TAX= ETR
C	0.554** (3.123)	0.561** (3.406)
FEMALE	-0.055* (-2.025)	-0.057* (-2.034)
SIZE	-0.102* (-2.032)	-0.064 (-1.366)
LEV	0.011 (0.539)	0.007 (0.404)
ROE	0.039* (2.244)	0.043** (3.099)
GWTH	0.075* (2.363)	0.072* (2.351)
Adjusted R2	0.552	0.531
F-stat.	7.961**	7.719**
DW statistic.	1.938	1.934
Notes: t-statistics are reported in parenthesis; **, and * denote significance at the 0.01 and 0.05 levels, respectively.		

### Additional Analysis

To shed more lights on the topic of discussion and conduct a sensitivity analysis on the research findings, other tests were also performed. In the first test, the results of the study were meticulously considered with respect to the variable of firm size. To do so, firms were classified from large firms (with a size larger than the median of the whole sample) to small firms (with a size smaller than the median of the whole sample) such that large firms were assigned the value of 1 and small firms got the value of 0. Then, the moderating effect of firm size on the relation between the presence of women on corporate boards and corporate tax avoidance were examined, and the results were presented in Table 5.

As indicated, the estimated coefficient and t-statistics of the interactional variable of *FEMALE\*SIZE* were reported negative and significant

at 0.05 level in both models, i.e. the negative association between presence of women on corporate boards and corporate tax avoidance is more pronounced in larger firms.

In another test, the relation between presence of women on boards and corporate tax avoidance was investigated for each research years. Table 6 represents the significance of the variable of *FEMALE* for each year separately. As indicated in the table, The coefficient of the *FEMALE* was obtained negative for all years. This finding means that the presence of female managers on the board reduces tax avoidance. However, the results show lower significance for the first two years of the research. This is illustrated by lower percentage of women on boards of directors, thereby reducing their influence on decision-making process.

**Table 5 .Results of the fitted model with respect to the variable of firm size**

	(1)	(2)
Variable	TAX= BTD	TAX= ETR
C	0.608** (3.715)	0.663** (3.866)
FEMALE	-0.061* (-2.135)	-0.064* (-2.161)
SIZE	-0.136** (-2.677)	-0.041 (-1.181)
FEMALE*SIZE	-0.044*	-0.045*

	(1)	(2)
	(-2.562)	(-2.241)
LEV	0.018 (0.471)	0.009 (0.418)
ROE	0.037* (2.316)	0.038* (2.337)
GWTH	0.077** (2.838)	0.074** (2.791)
Adjusted R2	0.581	0.574
F-stat.	8.502**	8.216**
DW statistic.	1.966	1.962
Notes: t-statistics are reported in parenthesis; **, and * denote significance at the 0.01 and 0.05 levels, respectively		

**Table 6. Results of regression analysis in each research year**

Years	(1) TAX= BTD	(2) TAX= ETR
2011	-0.028 (-1.607)	-0.024 (-1.599)
2012	-0.036 (-1.714)	-0.041* (-1.982)
2013	-0.044* (-2.008)	-0.039* (-2.014)
2014	-0.042* (-2.355)	-0.047* (-2.206)
2015	-0.068* (-2.279)	-0.063** (-2.624)
Notes: t-statistics are reported in parenthesis; **, and * denote significance at the 0.01 and 0.05 levels, respectively.		

## 5. Discussion and Conclusions

Corporate tax policies such as tax avoidance exert negative impact on government performance. Decisions associated with operational activities of firms may be influenced by changes in tax rules and regulations. Nevertheless, from the view point of taxpayers, particularly corporations, tax is a burden of responsibility on the shoulders of both firms and stakeholders (Adams and Ferriera, 2009: 293). Two groups are subject to this issue. The first group believes that firms tend to use tax strategies to minimize, remove or postpone tax payment since they suspect to pay high amount of tax to authorities. To put it differently, managers argue that paying tax will decrease firm value. Although agency theory maintains that these managers substitute their opportunistic incentives with benevolent incentives, they pursue their own interests (Beasley, 1996). However, the second group, following corporate social

responsibility, believes that since societies pave the way for firms to continue their operations for an indefinite period of time, firms do their best to compensate for this advantage by paying their tax. They consider tax as a factor contributing to the development of their social environment. Making a balance between these two viewpoints in corporate governance accentuates the role of women on corporate boards sine women have shown more efficiency in this regard in comparison to men. The findings of this study revealed that since boards of directors are set to make an informational balance between shareholders and managers, and promote the level of trust among shareholders, one can maintain that the presence of women on corporate boards reduces tax avoidance. This finding suggests that female directors provide effective monitoring and oversight of board matters in a similar fashion to outside directors. Additionally, female directors are

also more risk-averse, have higher ethical and moral standards, exhibit greater independent thinking, and facilitate more informed decisions that increase the level of transparency at the board level, and enhance the degree of trustworthiness of the board. Thus, it is reasonable to expect that female presence on the board of directors could significantly reduce the likelihood of tax avoidance. The results of this study conform to those obtained by Adams and Ferreira (2009), Baldry (1987), Roger and King (1992) and Fallen (1999). Providing the same results, Richardson and Lins (2016) asserted that the presence of women on boards of directors can reduce the corporate tax avoidance activities.

As such, the following suggestions are recommended:

- The findings of the present study suggest that firms give up their traditional viewpoints, reduce the gap between men and women and promote professional justice and equality. They are also recommended to follow socio-psychological theories and upper echelon theory to eliminate discrimination between men and women in the workplace since the presence of women on corporate boards have developed thriving companies.
- The Stock Exchange is recommended to employ women in its monitoring committees to control firms' performance, and also reduce the discrimination between men and women to promote its quality through coordinating them.

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