Article

Nationality Diversity in Corporate Boards and Tax Avoidance: Evidence from Oman

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Abstract: We examine the impact of nationality diversity in corporate boards on tax avoidance by assessing whether foreign directors play monitoring or advisory roles. We use a sample of 1049 firm-year observations from companies listed on the Muscat Stock Exchange between 2009 and 2019. We find that board nationality and audit committee nationality are associated with lower effective tax rates, which equated to more tax avoidance (an advisory role). Our findings offer an important implication for policymakers who are interested in determinants of and mechanisms to prevent tax avoidance. The implication is that caution should be exercised when appointing foreign directors to the board of directors in Oman.

Keywords: nationality diversity; tax avoidance; Oman

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1. Introduction

Tax avoidance has grown in importance in light of the new anti-tax avoidance unit created within the Oman tax authority. It is the intention of the government of Oman to improve tax compliance, reduce tax avoidance and boost tax revenue in an effort to enhance balanced social protection. Nationality diversity in corporate boards has recently attracted major interest in accounting and finance literature. Researchers have examined the impact of board nationality on corporate social/sustainability performance/environmental, social and governance disclosure (Harjoto et al. 2019; Katmon et al. 2019; Zaid et al. 2020; Farooque et al. 2022), dividend policy (Shehata 2022), corporate financial performance (Masulis et al. 2012; García-Meca et al. 2015; Adams and Baker 2021), and gender pay gap (Ahamed et al. 2019). The reason behind the increased attention is that this research has policy implications. It informs policy markets about the potential financial consequences of nationality diversity in corporate boards. In this paper, we complement this line of research and examine the impact of nationality diversity in corporate boards on tax avoidance in Oman. The literature shows that Omani culture influences corporate boards' decision-making process (Basiddiq 2019). Little is known about how corporate directors with different cultures (e.g., non-Omani directors) could affect the decision-making process. This motivated us to examine the impact of national diversity in corporate boards on tax avoidance.

We test to see whether foreign directors on the board and foreign audit committee directors play monitoring or advisory roles in tax avoidance practice in Oman. In the closest study to ours, Law and Mills (2017, p. 178) examine the impact of military experience on corporate tax avoidance. They conclude that "boards hire managers whose culture makes them more conservative in tax planning, they gain the benefit of less aggressive financial reporting that would require more governance to constrain". In line with Law and Mills's study, we believe that Omani directors share common culture and values related to government legitimacy. They are aware of the government's efforts to improve tax compliance and reduce levels of tax avoidance. They are more likely to believe that tax

avoidance is less ethical. Therefore, they are less likely to engage in tax avoidance practices compared with foreign directors.

We focus on the Omani context for a number of reasons. First, Oman is one of the Middle East and North Africa (MENA) countries that witnesses in relation to its corporate governance practice (Elamir and Mousa 2019; Salem et al. 2021). Omani firms have the highest block ownership compared with other MENA countries. To create an environment that is conducive to identifying tax avoidance arrangements and transactions (KPMG 2020a), the Omani government implemented provisions in relation to Omani income tax law and the Automatic Exchange of Information (KPMG 2020a). This aimed to help in reducing tax avoidance and boosting tax revenue. Additionally, in order to increase tax compliance and enhance tax efficacy, the government established a new unit under the Oman tax authority (OTA) named Anti-Tax Avoidance (Prabhu 2021). The Omani government has made significant efforts to implement "fair tax competition," "transparency in regard to automatic exchange of tax information," and "implementing of Base Erosion and Profit Shifting standards", as evidenced by the removal of Oman from the EU's blacklist of countries that are non-cooperative jurisdictions for tax purposes (KPMG 2020b).

Recent literature has emerged and offers contradictory findings about the impact of corporate boards on tax avoidance in Oman. For example, Al Lawati and Hussainey (2021) provided evidence that overlapped AC directors (those directors who sit on other committees within a company) play an advisory role (e.g., increasing tax avoidance) in Omani financial institutions, while they play a monitoring role (e.g., reducing tax avoidance) when firms make losses. In addition, the findings related to the corporate governance control variables offer mixed conclusions which merit further discussion. They find that the significance of the impact of board size, board independence, audit committee size and audit committee independence and audit quality on tax avoidance depends on the variables included in the regression model. So, no conclusion can be drawn on the impact of board characteristics on tax avoidance in Oman.

This study makes a significant and novel contribution to the literature on tax avoidance in Oman. As far as we are aware, it is the only paper to examine the impact of the characteristics of the board of directors and audit committee directors on tax avoidance for all listed institutions in Oman. It is the first paper to undertake a large-scale study in one of the developing countries to examine whether nationality diversity in corporate boards affects tax avoidance practice. Our study complements the work of Al Lawati and Hussainey (2021) and sheds further light on factors that could limit or reduce tax avoidance in Oman in light of agency, shareholder and resource-dependency theories. It is worth noting that Al Lawati and Hussainey (2021) focused on financial institutions in Oman, which are highly regulated and monitored by the Omani central bank. Therefore, their conclusion might not be applicable to non-financial institutions that are less regulated. Therefore, Al Lawati and Hussainey (2021) call for new research to explore the impact of governance on tax avoidance in non-financial institutions. Our paper contributes to governance and tax avoidance literature by responding to the research call by Al Lawati and Hussainey (2021).

Using a sample of 1049 firm-year observations from institutions listed on the Muscat Stock Exchange between 2009 and 2019, our analysis shows an interesting finding. We find that the nationality of the board of directors including audit committee directors is associated with lower effective tax rates, which equated to more tax avoidance. This indicates that foreign directors play an advisory role (rather than a monitoring role) in Omani-listed institutions, and this contributed to an increase in tax avoidance.

The remaining of this paper proceeds as follows. Section 2 reviews relevant literature and develops the hypotheses development. Section 3 presents data and the estimation method. Section 4 presents the empirical findings. Section 5 presents the concluding remarks.

2. Relevant Literature and Hypotheses Development

The nationality of directors on corporate boards is one of the main characteristics of board diversity that has become an increasing phenomenon over the last two decades (Adams and Baker 2021). Because of the increasing internationalization of business, firms strive to appoint foreign national directors who possess the necessary knowledge and contacts in foreign markets to link the firm to the different contexts of the countries in which it operates (Carpenter et al. 2001; García-Meca et al. 2015). Foreign directors add value to corporate boards through their managerial expertise and technical collaborations as they expand the flow of skills, capabilities, and knowledge and information technology across corporate boards (Fogel et al. 2013). They provide creative and innovative ideas (García-Meca et al. 2015), heterogeneity of ideas and experienced knowledge (Ezat and El-Masry 2008; Samaha et al. 2012; García-Meca et al. 2015).

2.1. Relevant Literature on Nationality Diversity

The consequences of nationality diversity have been extensively discussed in the literature. For example, Ahamed et al. (2019) examine the impact of nationality diversity on the gender pay gap. Another study is Shehata (2022) which examines the impact of nationality diversity on dividend policy. A number of studies also examine the impact of nationality diversity on financial performance (Masulis et al. 2012; García-Meca et al. 2015; Adams and Baker 2021) and non-financial performance (Oxelheim and Randøy 2003; Harjoto et al. 2019; Katmon et al. 2019; Zaid et al. 2020; Farooque et al. 2022).

The literature emphasizes the advisory and monitoring roles of the foreign national directors on board. On the one hand, it shows that foreign directors expect to contribute to the board's effectiveness, as they are more likely to provide advice than monitoring (Hahn and Lasfer 2016). On the other hand, it is argued that a board with a large proportion of foreign members represents a higher level of independence. For a successful boardroom, a mix of diverse nationalities of directors creates a creative atmosphere by exchanging cross-national knowledge and experience, which encourages high-quality decision-making (Zaid et al. 2020). Diversity leads to greater independence, improving the monitoring function of the boardroom. The literature also shows that the presence of foreign national directors on corporate boards enhances the board's overall effectiveness (Ruigrok et al. 2007; Delis et al. 2017).

However, there can be a negative impact of nationality diversity on monitoring function, because the different or disparate backgrounds and characteristics cause coordination and communication problems, which reduce the efficiency of monitoring function (Masulis et al. 2012). Another study of interest is that of Hahn and Lasfer (2016), which provides evidence that foreign national directors are negatively related to board meeting frequency. This negative relation indicates that foreign national directors are linked with relatively high costs involved. As indicated by Hahn and Lasfer (2016, p. 296), "it is also easier and cheaper to attract local directors they are likely to limit the board meeting frequency because of the relatively higher costs involved. It is also easier and cheaper to attract local directors who are more likely to have relatively more time and energy to travel cheaply to board meetings and oversee firm developments, and firms have better access to soft information about their availability". The literature provides empirical evidence that a lower frequency of board meetings is associated with high corporate tax avoidance (Barros and Sarmento 2020). The literature also argues that foreign national directors may play an ineffective monitoring role because of the lack of domain-specific knowledge regarding local regulatory, fiscal, and/or accounting rules and language and learning barriers (Guest 2019; Hooghiemstra et al. 2019; Adams and Baker 2021).

2.2. Relevant Literature on Nationality Diversity and Tax Avoidance

A large body of research examines the impact of corporate governance mechanisms on tax avoidance (see, for example, Al Lawati and Hussainey 2021). In our paper, we use the upper echelon theory that explains the role of demography-based characteristics

(e.g., nationality) in the corporate decision-making process (Hambrick and Mason 1984; Koch-Bayram and Wernicke 2018).

It appears that only limited empirical evidence is available on the impact of corporate directors with different cultures (e.g., non-Omani directors) on tax avoidance. In our paper, we investigate whether foreign directors on the board and foreign audit committee directors play monitoring or advisory roles in tax avoidance practice in Oman. The impact of national culture on tax avoidance has been examined by Law and Mills (2017). They examine the impact of military experience on tax avoidance. They find that national board members with military experience are more conservative in tax planning. The study of Law and Mills indicates that culture affects corporate boards. This leads us to believe that Omani directors are likely to share common culture and values related to government legitimacy. They will be aware of the government's efforts to improve tax compliance and reduce levels of tax avoidance. They are more likely to believe that tax avoidance is less ethical. Therefore, they are less likely to engage in tax avoidance practices compared with foreign directors.

The literature offers empirical evidence on the impact of foreign ownership on tax avoidance (see, for example, Huizinga and Nicodème 2006; Chen et al. 2010; Lanis and Richardson's (2011, 2018) findings; Badertscher et al. 2013; Salihu et al. 2013; Richardson et al. 2015; Hasan et al. 2017; McClure et al. 2018; Bradshaw et al. 2019; Barros and Sarmento 2020). The literature also examines the impact of directors with foreign experience (e.g., if a director previously studied or worked outside mainland China) on corporate tax avoidance (Wen et al. 2020). They find that the presence of directors with foreign competence has a significant influence on minimizing aggressive tax evasion strategies. These directors are worried about their reputation in many countries. Consequently, they exercise their strict management oversight to reduce tax evasion. Managers and directors are penalized for overpaying taxes and rewarded for avoiding them (Chyz and Gaertner 2018; Lanis et al. 2017). This is especially important since certain state-owned corporation executives may choose to pay more taxes in order to advance their careers (Bradshaw et al. 2019). However, the impact of the foreign composition of boards on tax avoidance is quite limited. To the best of our knowledge, only Nwezoku and Egbunike (2020) and Suranta et al. (2020) directly examine the impact of foreign directors on tax avoidance, but they do not find a relationship between the two variables. We, therefore, treat the issue as a purely empirical question and offer no prior theoretical predictions as to whether nationality diversity in corporate boards positively or negatively affects tax avoidance.

Based on the above discussion, the current paper develops the following research hypotheses:

Hypothesis 1 (H1). *Corporate tax avoidance is likely to be influenced by board nationality diversity.*

Hypothesis 2 (H2). *Corporate tax avoidance is likely to be influenced by audit committee nationality diversity.*

3. Data and Estimation Method

The study population represents all publicly traded companies in Muscat Security Exchange between 2009 and 2019. After excluding firms with missing data (2 companies), the final net sample resulted in a total of 109 companies (1049 firm observations). We gathered our data from two main sources: corporate annual reports, and the Muscat Securities Exchange website. Firm-specific characteristics, taxation data and corporate governance data were collected from corporate annual reports. We ensured that information for the variables was available for each firm-year observation. We use the following ordinary least squares (OLS) models:

$$\text{Tax avoid} = \alpha 0 + \beta 1 \text{ B Nationality} + \beta 2 \text{ B Size} + \beta 3 \text{ INED} + \beta 4 \text{ Size} + \beta 5 \text{ LEV} + \beta 6 \text{ ROA} + \beta 7 \text{ AUDIT} + \beta 8 \text{ AS} + \varepsilon \quad \text{(Model 1)}$$

$$\text{Tax avoid} = \alpha 0 + \beta 1 \text{ A Nationality} + \beta 2 \text{ A Size} + \beta 3 \text{ A INED} + \beta 4 \text{ Size} + \beta 5 \text{ LEV} + \beta 6 \text{ ROA} + \beta 7 \text{ AUDIT} + \beta 8 \text{ AS} + \varepsilon \quad \text{(Model 2)}$$

Following prior research (Hsu et al. 2018; Jbir et al. 2021; Al Lawati and Hussainey 2021), we use the total cash taxes paid/pre-tax book income as a proxy for tax avoidance practice. Omani directors were identified by their surname and the official/traditional Omani dress code, which is conservative for both genders. Omani directors usually have unique surnames compared to other directors in gulf countries (e.g., Al-Shanfari, Al-Rawas, Al-Lwati, Al-Mashani and Al-Busaidi) (Baatwah et al. 2021). Other well-known surnames include—but are not limited to—Alsadi, Alhajri, Almamri, Aljahwari, Almasroori and Alsinawi. In addition, the dress code of Oman helped us to identify the nationality of the director, as Omani people have a unique dress code (wearing an Omani turban) compared to other countries in the world.[1] Following prior research (e.g., García-Meca et al. 2015; Hahn and Lasfer 2016; Ahamed et al. 2019; Harjoto et al. 2019; Katmon et al. 2019; Zaid et al. 2020; Adams and Baker 2021; Farooque et al. 2022; Shehata 2022), we measure board nationality as the percentage of foreign (non-Omani) directors to total directors.

Following prior research, we control for a number of corporate governance and firm-specific characteristics variables. We control for board size following (Armstrong et al. 2015; Hsu et al. 2018; Jbir et al. 2021; Al Lawati and Hussainey 2021). We control for board independence following (Armstrong et al. 2015; Hsu et al. 2018; Lanis and Richardson 2018; Al Lawati and Hussainey 2021). We follow Richardson et al. (2015), Hsu et al. (2018) and Al Lawati and Hussainey (2021) and control for audit committee size and independence.

We also control for the quality of external auditors. One of the most important sources of external monitoring is the external auditor (Ng 1978). Aggressive tax evasion by a company may increase the auditor's legal risk if the board of directors wants to hold the auditor accountable for tax-related financial statement problems (Donohoe and Knechel 2014). Furthermore, if the fiscal authorities reverse an auditor's tax stance and restatements are required, the auditor's reputation may be harmed. Large, well-known audit firms are thought to be particularly sensitive to reputational concerns (DeAngelo 1981), leading to the assumption that large auditors will be less tolerant of their clients' tax fraud. Nonetheless, auditors may incur significant expenditures as a result of their clients' tax evasion owing to the danger of litigation, and reputational harm is exacerbated when the auditor also prepares the corporate tax return. If the fiscal authority overturns the tax positions, the auditor may lose the audit engagement for future years.

Finally, we control for a number of firm-specific characteristics that could affect corporate tax avoidance following prior research (e.g., Hsu et al. 2018; Lanis and Richardson 2018; Jbir et al. 2021; Al Lawati and Hussainey 2021). These include firm size, leverage and profitability. We also control for asset structure, as the literature shows that this variable affects tax avoidance (Ha and Quyen 2017). We also control for the industry and year effect by including industry and year dummies. The measurement of the independent variables and control variables are included in Table 1.

Table 1. Variable measurement and definitions.

Variables	Abbreviation	Definition
Dependent Variable		
Tax avoidance	Tax Avoid	Total cash taxes paid over pre-tax book income
Independent Variables		
Board nationality	B-Nationality	The percentage of foreign directors on the board
Audit committee Nationality	AC-Nationality	The percentage of foreign audit committee directors on board

Table 1. *Cont.*

Variables	Abbreviation	Definition
Control Variables		
Board size	B Size	The total number of directors on the board
Board independence	INED	The proportion of independent directors on the board
audit committee size	AC Size	Total number of audit committee directors
Audit committee INED	AC INED	The proportion of independent audit committee directors
Audit type	AUDIT	A dummy variable that equals 1 for the presence of Big 4 audit firm and zero otherwise
Firm size	Size	The log of total assets
Leverage	LEV	Total debt divided by total assets
Return on assets	ROA	Ratio of net income before extraordinary items plus interest expenses to total assets
Asset structure	AS	Fixed asset over total assets

4. Empirical Findings

Table 2 reports descriptive statistics. The table shows that, on average, board nationality diversity is slightly more than audit committee nationality diversity across the research period. The mean of board nationality diversity is 35% with companies having no foreign directors on corporate boards, up to a maximum of 100%. The mean of audit committee nationality diversity is 32% with a maximum of 100% nationality diversity and a minimum of 0% nationality diversity. It also shows that, on average, the board features 7 directors, and the average independence of the directors is at 73%. Tax avoidance ranges from a minimum of −3.06 up to a max of 3.33. The average audit committee size features 3 members, while the average audit committee independence is 83%. The average firm size is 7.62, as measured by the natural log of total assets. The sample companies have less leverage with a mean of 23%. The average percentage of ROA is 5% with companies having as high as 97%. Financial statements of 71% of the sample companies are audited by Big 4 audit firms.

Table 2. Descriptive statistics.

Variable	N	Mean	SD	Min	Max
TaxAvoid	1049	−0.10	0.25	−3.06	3.33
B-Nationality	1049	0.35	0.28	0	1
A-Nationality	1049	0.32	0.32	0	1
BoardSize	1049	7	1.62	3	12
BoardINED	1049	0.73	0.26	0	1
ACSize	1049	3	0.76	0	6
ACINED	1049	0.83	0.24	0	1
AUDIT	1049	0.71	0.45	0	1
Size	1049	7.62	0.83	4.83	10.09
LEV	1049	0.23	0.27	0	1.52
ROA	1049	0.05	0.09	−0.97	0.97
AS	1049	0.63	0.25	−0.00	1.02

Table 1 shows the definition of the variables.

Table 3 shows the correlation analysis. It shows that the problem of multicollinearity does not exist among our independent variables, as there is no correlation equal to over 70%. Therefore, all variables will be included as part of the regression analysis.

Table 3. Correlation analysis.

Variables	Tax Avoid	B-Nationality	AC-Nationality	B Size	INED	AC Size	AC INED	Size	LEV	ROA	AUDIT	AS
Tax Avoid	1											
B-Nationality	−0.068	1										
AC-Nationality	−0.072	0.677 **	1									
B Size	−0.013	−0.161	−0.054	1								
INED	0.036	−0.104	−0.078	0.062	1							
AC Size	−0.002	−0.240 *	−0.262 *	0.312 *	0.157 *	1						
AC INED	0.013	−0.073	−0.108 *	0.114 *	0.678 **	0.124 *	1					
Size	−0.093	−0.031	0.033	0.449 *	−0.078	0.104	−0.037	1				
LEV	−0.082	0.177	0.280 *	0.256 *	−0.026	−0.022	−0.013	0.574	1			
ROA	−0.037	0.017	0.003	0.066	0.005	0.070	0.029	0.074	−0.130	1		
AUDIT	−0.079	−0.102	−0.059	0.235 *	0.063	0.129 *	0.035	0.514	0.242	0.106	1	
AS	0.007	0.254 *	0.286 *	0.121 *	−0.100 *	−0.091	−0.106 *	0.224	0.378	−0.029	0.123	1

Table 1 shows the definition of the variables. ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Table 4 shows the regression results. It shows the regression results for the impact of board nationality diversity on tax avoidance (Model 1) in Column 2. It also shows the regression results for the impact of audit committee nationality diversity on tax avoidance (Model 2) in Column 4. Variance inflation factors (VIFs) are reported for each model. VIF values present the amount of multicollinearity in the regression model. The table shows that VIF values are less than 10, indicating that there is no multicollinearity problem in our regression analyses (Hair et al. 2010).

Table 4. Main results.

Models	Model 1		Model 2	
Variables	**Coefficient**	**VIF**	**Coefficient**	**VIF**
B-Nationality	−0.067 ** (0.027)	1.20		
B Size	0.002 (0.613)	1.34		
INED	0.007 (0.812)	1.21		
AC-Nationality			−0.060 ** (0.029)	1.31
AC size			−0.003 (0.777)	1.12
AC INED			−0.003 (0.908)	1.11
Size	−0.016 (0.263)	2.49	−0.013 (0.327)	2.18
LEV	−0.048 (0.215)	1.88	−0.041 (0.294)	1.95
ROA	−0.118 (0.180)	1.12	−0.119 (0.176)	1.13
AUDIT	−0.033 (0.123)	1.51	−0.030 (0.152)	1.50
AS	0.062 ** (0.069)	1.26	0.060 ** (0.075)	1.25
	Industry, Year		Industry, Year	
Observations	1049		1049	
R^2	0.037		0.036	

** indicates significance at 5% levels. Table 1 shows the definition of the variables.

We tested ordinary least square (OLS) regression assumptions, and the results—not reported—show that these assumptions are met. We therefore use OLS regression to test our research hypotheses. Table 4 shows that the coefficient of board nationality is negative and significant. Similar results are also seen on audit committee nationality, indicating that a higher proportion of foreign directors and audit committee directors on corporate boards is associated with lower effective tax rates, which equated to more tax avoidance. This indicates that these directors play an advisory role rather than a monitoring role in corporate boards. This finding also indicates that Omani directors have a monitoring role in corporate boards, and their presence on the board is associated with lower tax avoidance.

The findings are in line with prior research on the dark side of the foreign directors on corporate boards (Masulis et al. 2012; Hahn and Lasfer 2016; Guest 2019; Hooghiemstra et al. 2019; Adams and Baker 2021). A consistent finding of these studies is that nationally-mixed boards include directors with different or disparate backgrounds, which could cause coordination and communication problems between directors. This could affect the efficiency of the monitoring function of the foreign directors and hence leads to less ethical issues such as the increase in levels of tax avoidance (Hahn and Lasfer 2016). In addition, the frequency of board meetings became lower with nationality-mixed boards (Barros and Sarmento 2020). This also negatively affects the monitoring role of the board of directors. Finally, foreign directors engage more in tax avoidance because they play an ineffective monitoring role because of their lack of awareness and knowledge regarding local regulations, fiscal and/or tax rules and language and learning barriers (Guest 2019; Hooghiemstra et al. 2019; Adams and Baker 2021).

The findings also suggest that, following Law and Mills's (2017) arguments, Omani directors are less engaged in tax avoidance practices, as they share common culture and values related to government legitimacy. They acknowledge the government's efforts to improve tax compliance and reduce tax avoidance. They consider tax avoidance as less ethical behavior.

For the control variables, we noted that board size has a positive and insignificant relation to effective tax rate. However, audit committee size has a negative and insignificant relation to effective tax rate. Board independence exhibits a positive and insignificant relation, while audit independence shows a negative and insignificant relation to tax avoidance. The coefficient on the asset structure is also positive and statistically significant, indicating that larger asset structure is associated with higher effective tax rates, which equates to less tax avoidance. The coefficients on firm size, profitability, leverage and the quality of external auditing are not statistically significant. The results hence indicate that nationality diversity in both the board of directors and audit committee are the only driving factors that lead to lower effective tax rates, which equates to more tax avoidance

The findings suggest that governance mechanisms could enable suitable corporate behavior and decisions. To improve tax compliance, an effort is needed to improve the role of the board of directors in general and the audit committee directors in particular in Omani-listed firms. The results of this study reveal that the current role of foreign directors in Oman requires reconsideration. The findings have practical implications for boardrooms regarding the need to revise the corporate governance code to enhance the monitoring role of the board and audit committee members.

The study also employed two main robustness tests to address the endogeneity issue, lagged explanatory variables and differences in difference tests. Table 5 shows our findings confirm that board and audit committee directors' nationalities are associated with more tax avoidance.

Table 5. Robustness test.

Models	Lagged Explanatory Variables		Difference In Difference	
	Model 1	**Model 2**	**Model 1**	**Model 2**
B-Nationality	−0.074 ** (0.028)		−0.241 * (0.066)	
B Size	0.003 (0.578)		0.012 (0.392)	
INED	0.002 (0.945)		−0.000 (0.989)	
AC-Nationality		−0.067 ** (0.027)		−0.003 (0.973)
AC size		−0.003 (0.785)		0.003 (0.813)
AC INED		−0.017 (0.644)		−0.063 (0.177)
Size	−0.014 (0.377)	−0.010 (0.505)	0.094 (0.376)	0.090 (0.199)
LEV	−0.033 (0.430)	−0.025 (0.550)	0.004 (0.968)	0.019 (0.693)
ROA	−0.115 (0.259)	−0.112 (0.270)	0.056 (0.606)	0.054 (0.434)
AUDIT	−0.039 * (0.092)	−0.038 (0.107)	−0.118 (0.002) ***	−0.121 ** (0.030)
AS	0.070 * (0.065)	0.068 * (0.073)	0.158 *** (0.003)	0.156 ** (0.026)
	Industry, Year	Industry, Year	Industry, Year	Industry, Year
Observations	927	927	927	927
R^2	0.032	0.032	0.024	0.021

Table 1 shows the definition of the variables. *, ** and *** indicate significance at the 10%, 5% and 1% levels respectively.

5. Concluding Remarks

Based on a sample of 109 Omani-listed firms from 2009 and 2019, we investigated the impact of nationality diversity on tax avoidance. We examined whether foreign directors play an advisory or a monitoring role with reference to the tax avoidance practice. We add to the literature on governance and tax avoidance in two crucial respects. First, we provide new evidence on the advisory role of the foreign board directors and foreign audit committee directors in Omani-listed firms. We find that the existence of foreign directors on the board and audit committee leads to more tax avoidance. Second, we provide the first empirical evidence on the impact of foreign directors on tax avoidance in one of the MENA countries.

Our results have several implications for policymakers and regulators regarding the current practice of the boards. The board of directors as well as audit committee directors should be aware of the importance of increasing tax compliance and eliminating or reducing tax avoidance practice. Omani governments and regulatory bodies need to impose standards and regulations on companies for increasing tax compliance, reducing tax avoidance and boosting tax revenue.

One of the important practical implications of our results is that it is not sufficient to appoint a foreign board member and to expect positive effects from their appointment (Ruigrok et al. 2007). It is important to understand the foreign board characteristics (e.g., age, experience), their educational background, educational level and affiliations that these directors bring to the boardroom and that it is important to take national circumstances into

account (Ruigrok et al. 2007). Omani governments and regulatory bodies need to impose standards that help in appointing directors who encourage their companies to increase tax compliance levels. An effort is also needed to increase the awareness in boardrooms on the importance of tax compliance. The decision to appoint foreign directors on boards should also be based on criteria other than qualifications and expertise. The appointment of foreign directors on boards should also be based on their awareness of the Omani government's efforts to improve tax compliance in order to boost tax revenue. They also need to be aware of the Oman economy, tax rules and regulations and the government's vision for 2040.

Our research design could be extended in at least three ways. First, we understand that the tax income can change over time for different reasons. Our paper focused only on nationality diversity on corporate boards. Further research could explore the determinants of the change in the level of tax avoidance over time. Second, further research could investigate the impact of foreign directors on boards from countries geographically close to Oman with a similar culture, language and religion on tax avoidance. Finally, recent literature provides evidence for a sample of British companies that external tax preparers are more tax aggressive than internal preparers because of their knowledge and expertise in tax law (Assidi and Hussainey 2021). Further research could explore the role of tax preparers, as an intermediary between firms and tax administration, on tax avoidance in developing countries.

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Note

[1] "The national Oman dress code for men is an ankle-length collarless robe with long sleeves, called a dishdasha. The robe is usually white, although it also comes in other colors such as brown, lilac, and black. Men often wear a traditional hat that is usually white and adorned with a variety of elaborate embroidery. Omani women traditionally wear a long dress over pants called sirwal and a headdress or lihaf. The lihaf is often showing only the women's face or, oftentimes, just their eyes" (source: https://www.omanonlinevisa.com/oman-dress-code-foreigners/, accessed on 25 August 2022).

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