



# Directors with foreign experience and corporate tax avoidance

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## ABSTRACT

Using a large sample of hand-collected directors' foreign experience data for Chinese listed companies from 2001 to 2016, we examine the impact of directors with foreign experience on corporate tax avoidance. We find a significantly negative association between directors with foreign experience and tax avoidance, suggesting that these directors can help constrain their firms' tax aggressiveness. The result is robust to Heckman two-stage analysis, instrumental variable approach, inclusion of potential omitted variables, change analysis, and alternative tax avoidance measures. Further analyses reveal that reputation concerns and CSR awareness are potential channels through which returnee directors affect corporate tax avoidance. The negative relation between directors with foreign experience and tax avoidance only holds when directors' foreign experiences are derived from countries or regions with higher investor protections. Non-independent directors with foreign experience have larger impacts on corporate tax avoidance than independent directors, and the effect is more pronounced when directors with foreign experience sit on audit committees. Directors' working and studying experiences both have important impacts on corporate tax avoidance. The result also suggests that the negative relation between directors with foreign experience and tax avoidance is more pronounced in non-state-owned firms. Overall, the findings suggest that directors' foreign experience matters for corporate tax behavior in emerging markets.

## 1. Introduction

The board of directors takes responsibility for monitoring and advising management (Fama and Jensen, 1983). Prior research shows that director heterogeneity significantly affects the effectiveness of directors fulfilling their duties (e.g., Ferreira, 2009; Cho et al., 2017; Gul et al., 2011; Güner et al., 2008; Minton et al., 2014). As firms in emerging markets are generally considered to have weak corporate governance and poor management practices, the extent to which board composition can improve corporate governance and management practices is more important to shareholders and regulators (Syverson, 2011) than in developed countries. Recent studies provide evidence that directors with foreign experience help facilitate companies' access to foreign resources and internationalization (Oxelheim et al., 2013), improve firm performance in emerging markets (Giannetti et al., 2015), and transfer governance practices across countries (Iliev and Roth, 2018). Extending this line of research, we explore whether and how directors with foreign experience affect firms' tax avoidance. The question is essential, as tax is one of the most important corporate decisions in which directors are also involved (Erle, 2008). In his 2009 remarks, the IRS Commissioner, Douglas Shulman, urged corporate boards to play more important roles in conducting assessment and oversight of tax risk.<sup>1</sup> In a 2017 KPMG survey of tax directors of

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<sup>1</sup> See the remarks at <https://www.irs.gov/pub/irs-news/ir-09-095.pdf>

multinational companies, over 60% of respondents confirmed that a board member (or board-level individual) takes responsibility for tax.<sup>2</sup>

Directors with foreign experience, or returnee directors, may affect their firms' tax avoidance decisions in two opposite directions. On the one hand, returnee directors may put shareholder value maximization as their primary duty and ask management teams to reduce tax payment. A few studies provide evidence that managers and directors are punished for tax overpayment and rewarded for tax avoidance (Chyz and Gaertner, 2018; Lanis et al., 2017). This may be especially relevant, as managers in some state-owned companies sometimes opt to pay more taxes for their own promotion (Bradshaw et al., 2019). On the other hand, returnee directors may have greater reputation concerns about firms' tax avoidance and, therefore, monitor management to reduce tax avoidance. In addition, returnee directors are more likely to promote corporate social responsibility (CSR) in their firms (Zhang et al., 2018), and prior study shows that CSR is negatively associated with tax avoidance (Hoi et al., 2013). Therefore, it is ex ante unclear how directors with foreign experience might affect their firms' tax avoidance.

We study this question in the Chinese setting because it offers several advantages. First, while the Chinese economy has grown enormously to the second largest economy in the last few decades, the Chinese market is still an emerging market, and management practice is still underdeveloped. The government is eager for highly skilled talents with foreign experience and has devoted great efforts to attract overseas talents since the 1990s (Giannetti et al., 2015). For example, in 2002, the Chinese Communist Party announced its 2002–2005 National Talent Plan and for the first time proposed talent promotion as a national strategy to build a stronger country.<sup>3</sup> Furthermore, in 2008, the Chinese government announced “The Thousand Talents Program,”<sup>4</sup> which provides returnee talents with extraordinary benefits, including high salaries, start-up research funds, housing allowances, schooling for children, and jobs for spouses. However, since corporate governance practice is less developed in China, whether these returnee talents can play their role is still an empirical question. Thus, the effect of directors with foreign experience is of interest to policymakers both in China and other emerging economies outside China. Second, although the Chinese government is eager for highly skilled talents with foreign experience and devotes great efforts to attract overseas talents, the demand still cannot be satisfied (Giannetti et al., 2015). Many firms do not have directors with foreign experience at all, which creates a sizable variation that enables us to conduct our analysis to find potential effects. Specifically, in China, boards of directors formulate corporate strategies, and top management teams mainly take responsibility for execution. The board chairperson often actively controls and runs the firm (Chen, 2015; Jiang and Kim, 2015), which makes it possible for the board to affect corporate tax decisions. Thus, the Chinese setting offers us a good opportunity to investigate this research question.

To examine whether directors with foreign experience affect corporate tax avoidance, we hand collect directors' personal information from corporate disclosures and additional internet sources. The information includes foreign education, work experience, host country in which experience was obtained, and current position in listed companies. We use two variables, one indicator variable and one continuous variable, to capture the extent to which a firm has directors with foreign experience. To measure corporate tax avoidance, we adopt two measures from prior literature based on the effective tax rate and book-tax difference. Using a sample of Chinese listed companies from 2001 to 2016, we find a negative association between directors with foreign experience and tax avoidance, suggesting that directors with foreign experience can help reduce tax aggressiveness. The impact of directors with foreign experience on corporate tax avoidance is both statistically and economically significant.

We perform several tests to ensure the robustness of our main findings. First, our results might suffer from the self-selection problem. Specifically, it is possible that firms engaging less in tax avoidance tend to hire directors with foreign experience, which drives our result. To mitigate the self-selection bias, we apply the Heckman two-stage procedure and find similar results. Second, to alleviate the omitted variable problem, we include several additional variables documented by recent literature in the regression model, and the result remains unchanged. Moreover, we use the instrument variable approach to further mitigate potential endogeneity, and we get similar results. Next, we use change analysis to illustrate the impact of newly-elected directors with foreign experience on tax avoidance, and the result still holds. Finally, we use alternative tax avoidance measures and find consistent results.

Further analyses reveal that the negative relationship is more pronounced in regions with more restricted tax enforcement, suggesting that reputational concerns are one reason that returnee directors monitor and reduce their firms' tax aggressiveness. We also show that firms' CSR performance is positively associated with returnee directors, suggesting that high CSR awareness is a channel through which returnee directors affect corporate tax avoidance. Our results also indicate that only when returnee directors obtained their foreign experience from strongly investor-protective countries or regions can they play an effective monitoring role in corporate tax avoidance activities. Non-independent directors with foreign experience have greater impacts on corporate tax avoidance than independent directors with foreign experience. Those directors with foreign experience who also sit on audit committees have a more significant effect on mitigating tax avoidance. In addition, we find that directors' working experience and studying experience both affect corporate tax avoidance. Finally, the negative relationship is more pronounced in private firms compared with state-owned entities (SOEs). Overall, our evidence is consistent with the conjecture that directors with foreign experience indeed matter for corporate tax avoidance decisions.

This study contributes to the literature in several ways. First, our findings add to the literature on the economic consequences of hiring directors with foreign experience. Recent studies show that directors with foreign experience improve their firms' long-term value (Giannetti et al., 2015), corporate innovation (Yuan and Wen, 2018), and information transparency (Liao et al., 2016). In

<sup>2</sup> See report at <https://home.kpmg.com/content/dam/kpmg/xx/pdf/2018/05/tax-benchmarking-report.pdf>

<sup>3</sup> See detailed information on [http://www.moe.gov.cn/jyb\\_xgk/gk\\_gbgg/moe\\_0/moe\\_8/moe\\_26/tnull\\_404.html](http://www.moe.gov.cn/jyb_xgk/gk_gbgg/moe_0/moe_8/moe_26/tnull_404.html) (in Chinese).

<sup>4</sup> Please refer to <http://www.1000plan.org/en/> for detailed information on “The Thousand Talents Program”.

addition, Zhang et al. (2018) find that directors with foreign experience may advise and monitor managers to pursue additional CSR engagement and therefore promote companies' CSR performance. Our study provides empirical evidence that returnee directors help reduce tax avoidance, which has some policy implications for emerging markets around the world on attracting highly skilled foreign talents. Our study is distinguished from developed country studies. Prior studies examining directors' foreign experience using samples from developed countries find negative effects on corporate governance. For example, using a U.S. sample, Masulis et al. (2012) document that foreign directors on boards attend fewer board meetings. Our study complements the literature by providing evidence from an emerging market.

Second, our study extends corporate tax avoidance literature from the perspective of directors' heterogeneity. Shackelford and Shevlin (2001) call for future research on the determinants of tax aggressiveness. Hanlon and Heitzman (2010) renew this call and point out that tax avoidance can be highly idiosyncratic. Answering these calls, studies investigating the manager- and director-level determinants of tax avoidance emerged in the last decade. Dyreng et al. (2010) find evidence that individual executives have incremental effects on firms' tax avoidance. In addition, they call for more studies to identify the factors that may explain firms' tax avoidance from management heterogeneity. A few other papers further explore the determinants of tax avoidance from manager-level characteristics, such as CEO overconfidence (Olsen and Stekelberg, 2016), CEO political preference (Francis et al., 2016), and managerial ability (Koester et al., 2016; Park et al., 2016). To the best of our knowledge, the effect of directors' foreign experience on corporate tax avoidance has not been explored. To fill this void, this study investigates the impact of directors with foreign experience on corporate tax policies.

Finally, corporate tax avoidance has received increased attention in the last few decades in the U.S. and worldwide (Dyreng et al., 2008; Li et al., 2017). Regulators, such as the IRS, recently emphasized the role of the board of directors in overseeing their firms' aggressiveness of tax avoidance.<sup>5</sup> Thus, by documenting the positive impact of directors with foreign experience on mitigating corporate tax avoidance, our study provides policy implications to regulators, which may help governments collect corporate income tax revenue in the future.

The remainder of the paper is organized as follows. Section 2 introduces institutional background, literature review, and hypothesis development. Section 3 presents the research design, including the sample selection and research methodologies. Section 4 provides discussion of the basic results and robustness tests. Section 5 shows additional analyses. Section 6 summarizes and concludes the study.

## 2. Institutional background, literature review, and hypothesis development

### 2.1. Tax avoidance and tax enforcement in China

A growing literature has started to provide evidence that tax avoidance is widespread in China, and firms have incentives to avoid tax by underreporting revenue, inflating expenses, managing earnings using discretionary accruals, and transferring profits intertemporally (Cai and Liu, 2009; Lin et al., 2012, 2014). However, the extent (or the magnitude) of tax avoidance is difficult to estimate due to certain tax treatments. The Chinese government offers preferential tax rates to domestic firms to encourage investment into specific regions and industries. Thus, for Chinese companies, applicable statutory tax rates have considerable variation, both cross-sectional and temporal. Therefore, it can be misleading to measure tax avoidance using effective tax rate without adjusting for an individual firm's statutory tax rate.<sup>6</sup> Tang et al. (2017) consider this differential applicable tax rate effect by scaling ETR with the applicable statutory tax rate. The numbers from their sample suggest that on average, tax avoidance is about 10% of the statutory tax rate. Considering the average statutory tax rate is less than the standard tax rate (i.e., 33% before 2008 and 25% afterward), tax avoidance estimated based on effective tax rate approach is typically less than 3%.

While it has been questioned whether China's tax administration can or is willing to detect aggressive tax avoidance and enforce tax collection, there is some evidence suggesting that tax auditing has improved in recent years. Early on, the Chinese tax authority focused on transfer pricing by multinational companies, and later on, firms with persistent loss, low profitability, and lack of local monitoring were more likely to be audited (Chan and Chow, 1997; Chan et al., 2010). The first paper that provides some descriptive statistics on tax audits in China is Lin et al. (2018). Using aggregate data from the China Tax Audits Yearbook (2003–2013), they find that on average, 1.6% of corporate tax returns were selected for an audit, and 1.2% were prosecuted. More importantly, they show that tax enforcement intensity varies considerably across geographic locations.

<sup>5</sup> For example, former IRS Commissioner Douglas H. Shulman discussed “the important role that board of directors can play in overseeing tax risk and tax strategies of corporations” in his remarks to the 2009 National Association of Corporate Directors Corporate Governance Conference (see the full remarks at <https://www.irs.gov/pub/irs-news/ir-09-095.pdf>). In the 2010 New York State Bar Association Taxation Section Annual Meeting, he emphasized again, “Another important player in the tax system is the Corporate Board of Directors” (see the full remarks at <https://www.irs.gov/newsroom/prepared-remarks-of-irs-commissioner-doug-shulman-to-new-york-state-bar-association-taxation-section-annual-meeting-in-new-york-city-jan-26-2010>).

<sup>6</sup> We use a simple example to illustrate the point. Assuming two firms, A and B, nominal tax rate is 30%, and effective tax rates for A and B are 24% and 26%, respectively. If one only considers the difference between ETR and nominal rate, tax avoidance is 6% for A and 4% for B. Average tax avoidance for the two companies is 5%. However, firm A might be a high-tech company enjoying tax benefits, so the applicable statutory tax rate is 25%. B does not have any tax benefits. Then, tax avoidance is 1% for A and 4% for B. And the average tax rate is 2.5%.

## 2.2. Literature review

Our study builds on two streams of literature. The first is on corporate tax avoidance. To maximize shareholder wealth, firms and managers have incentives to minimize their tax obligations, as doing so can increase firms' cash flows and mitigate capital constraints (Crocker and Slemrod, 2005). Early studies document several firm-level characteristics that affect corporate tax avoidance, including ownership structure (Khan et al., 2017), corporate governance (Desai et al., 2007), internal control weakness (Bauer, 2016), and customer concentration (Huang et al., 2016). More recently, some studies even find that manager- or director-level characteristics are associated with tax avoidance. For example, Dyreng et al. (2010) use manager fixed-effect regression to show the incremental impact of individual managers on tax avoidance. Armstrong et al. (2012) find a positive relationship between the incentive compensation of tax directors and their firms' tax avoidance. Robinson et al. (2012) show that directors with financial expertise can promote reasonable tax planning efficiency but reduce the aggressiveness of tax avoidance. Olsen and Stekelberg (2016) examine management overconfidence and find that overconfident managers increase tax avoidance aggressively. Francis et al. (2016) find that firms led by politically partisan CEOs are more aggressive in tax avoidance. Finally, Koester et al. (2016) and Park et al. (2016) both find that managerial ability could affect their firms' tax planning activities, but their results are inconclusive.

While firms may be labeled "bad citizens" and subjected to monetary punishment and future scrutiny if their aggressive tax avoidance (or tax evasion) is discovered by the government (Hanlon and Slemrod, 2009), whether or not managers and directors suffer reputational cost is unclear. Gallemore et al. (2014) find no relation between tax sheltering and reputational damage among managers and directors. However, they do suggest that it is possible that the specific sample construction and small sample size reduce the chance of detecting the expected effect. Chyz and Gaertner (2018) even find evidence that managers are more likely to experience turnover for paying too much tax, suggesting that shareholders do punish managers for tax overpayment. Similarly, Lanis et al. (2017) show that managers and directors can be rewarded by improvements in their reputations, measured as an increased number of outside board seats, by implementing tax avoidance strategies. Nevertheless, survey evidence still suggests that managers believe there is a reputational cost associated with tax avoidance (Graham et al., 2014).

The second branch of literature is on the economic consequences of hiring talents with foreign experience. Globalization in the last few decades greatly enhances the mobility of highly skilled talents around the world. Using a U.S. sample, Masulis et al. (2012) find that directors with foreign experience can help their firms resolve the cultural differences in international markets. But they also find that foreign independent directors display poor board meeting attendance records and are associated with a greater likelihood of intentional financial misreporting, higher CEO compensation, and a lower sensitivity of CEO turnover to performance. The economic consequences of hiring these talents can be different for developing countries, as these countries generally have weak corporate governance and investor protection. Existing evidence using the Chinese setting suggests directors with foreign experience help firms enhance production efficiency, promote innovation capability, engage more in corporate social responsibility, and improve corporate transparency (Giannetti et al., 2015; Liao et al., 2016; Yuan and Wen, 2018; Zhang et al., 2018).

## 2.3. Hypothesis development

A prevailing view in the business press and among executives themselves is that a firm's top management team and board of directors are crucial factors in determining the quality of its corporate decisions and business performance. The upper echelons theory states that managerial characteristics at least partially influence organizational outcomes (Hambrick and Mason, 1984; Hambrick, 2007). Recent finance and human resources literature show that the past experiences of directors and managers significantly affect various corporate policies and outcomes (e.g., Benmelech and Frydman, 2015; Bernile et al., 2017; Custódio et al., 2017). As tax is one of the most important corporate decisions, we expect that director heterogeneity has a significant influence on firms' tax avoidance behaviors. Affected by their foreign experience, returnee directors can influence their firms' tax avoidance differently from local directors.

Western countries have very different points of view on tax avoidance from China. A stream of literature views tax payment as a cost to the firm and argues that tax avoidance is a strategy to maximize shareholder wealth (Freedman, 2003; Avi-Yonah, 2008; Hanlon and Slemrod, 2009). Following this line of research, recent studies provide evidence that executives face different consequences for implementing different tax strategies. For example, Chyz and Gaertner (2018) find that a CEO is more likely to experience forced turnover by the board if his firm pays more taxes than its peers. Lanis et al. (2017) show that both CEOs and directors get rewarded by gaining an increased number of outside boards for being aggressive on tax. Through their experiences in developed countries, returnee directors may observe the costs and benefits of implementing those tax strategies, understand they are ultimately held accountable to shareholders, and embrace the concept of shareholder wealth maximization, therefore being aggressive in tax avoidance. Chinese firms traditionally are state owned and take full responsibility to their people instead of their shareholders. Although China started to restructure its state-owned enterprises (SOEs) in the economic reform, the concept of maximizing shareholder value is still not as prevailing as in developed countries.<sup>7</sup> In summary, compared with their local peers in China, returnee directors can influence their firms to engage more in tax avoidance due to the influences of the western world.

On the other hand, a competing view argues that a tax avoidance strategy is associated with reputational concerns. Bankman (2004) suggests that a firm that aggressively avoids taxes may be labeled a "poor corporate citizen", which can adversely affect product market outcomes and firm performance. Graham et al. (2014) survey and find that 69% of corporate tax executives rate

<sup>7</sup> For more details on China's economic reform, please see Wu (2003) and Cai and Liu (9).

potential harm to firm reputation as the second most important factor explaining why firms do not adopt a potential tax planning strategy. Although the literature finds conflicting evidence on firms' tax avoidance and reputational consequences, in real life, companies face negative publicity when their tax aggressiveness is discovered. For example, large corporations in the U.K. agreed to pay millions in additional corporate tax to avoid embarrassment and reputational damages.<sup>8</sup> In the U.S., large companies, such as Apple Inc., have to testify about their tax strategies before the U.S. Senate Permanent Subcommittee.<sup>9</sup> Returnee directors may closely witness "tax shaming" and feel unwilling to engage with the media on the topic of tax issues, especially when they face higher reputational costs than local directors. As returnee directors are scarce and highly sought after, they have a "superstar and eyeball effect" in the Chinese human resource market. Relative to domestic directors, they are more favored by the media and the masses. If their firms' aggressive tax avoidance is discovered or punished by regulators, returnee directors' personal reputations may be severely damaged. Therefore, directors with foreign experience are more likely to monitor and advise management to reduce aggressive tax avoidance.

Furthermore, loosely linked with reputation, CSR is found to have a negative association with tax avoidance. For instance, Hoi et al. (2013) find that firms with poor CSR are more likely to avoid taxes. Lanis and Richardson (2015) further show that firms with higher CSR performance have lower probability of tax avoidance. Developed countries have a long history of promoting CSR. From their study or work experience, returnee directors may recognize the importance of CSR to firm success and treat CSR as a norm. After joining the board, they may advise managers to be more socially responsible and share value with other stakeholders, which lead to lower levels of tax avoidance. Indeed, Zhang et al. (2018) provide evidence that returnee directors are positively related to their firms' CSR engagement. Based on their findings, it is possible that having returnee directors is negatively associated with tax avoidance.

In summary, whether returnee directors increase or decrease their firms' tax avoidance becomes an empirical question to investigate. Accordingly, we state our competing hypotheses as follows:

**H1a.** Ceteris paribus, directors with foreign experience are positively associated with corporate tax avoidance.

**H1b.** Ceteris paribus, directors with foreign experience are negatively associated with corporate tax avoidance.

### 3. Sample, variable, and research design

#### 3.1. Sample

We construct our sample using Chinese public companies listed on the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) in the period of 2001 to 2016. We start from the year 2001 because firms began to disclose directors' detailed background information in that year. We hand collect directors' foreign experience information from their publicly disclosed resumes in firms' annual reports. Following Giannetti et al. (2015), if a director previously studied or worked outside mainland China, we consider him/her as having foreign experience. To ensure that directors' experience captures actual exposure to a foreign environment, we exclude the situations when directors only worked for a foreign branch of a Chinese company in a foreign country/region or worked in a Chinese branch of a foreign corporation. We also manually collect the countries/regions where returnee directors obtained their experience and their current positions in listed companies.<sup>10</sup> Finally, to ensure the accuracy of our data, we cross-check the data with firms' official websites, Baidu (<http://baike.baidu.com>), and Sina (<http://finance.sina.com.cn>).

We obtain firms' annual applicable statutory tax rate data from the Wind database.<sup>11</sup> The data on total tax revenue for each province is obtained from the China Taxation Yearbook. Annual industry structure and import and export data are collected from the China City Yearbook. Other financial and corporate governance data are retrieved from the China Stock Market & Accounting Research (CSMAR) database.

We select our sample by the following criteria: 1) We exclude firms in the financial sector due to their different financial structures and regulations; 2) We exclude observations that have negative income before taxes due to the difficulty of interpreting the effective tax rate (e.g., Hoopes et al., 2012); 3) We delete observations that have abnormal effective tax rates (effective tax rate is negative or above one) to be consistent with previous literature (Chen et al., 2010; Cheng et al., 2012; McGuire et al., 2012); and 4) We eliminate firm-years without sufficient information to compute control variables. Applying the above selection criteria yields a final sample of 19,914 firm-years representing 2506 unique firms. We summarize our sample selection procedure in Table 1 Panel A.

Panels B and C of Table 1 report year and industry distribution of our sample, respectively. Although the year distribution in Panel B suggests that directors with foreign experience are not clustered in any year(s) of the sample period, it does show an increasing pattern in the last column. In the year 2001, just 16.62% of our sample firms had at least one director with foreign experience. This percentage steadily increased to 47.95% in 2016. Such an increase is likely due to the Chinese government policies attracting

<sup>8</sup> <https://moneyweek.com/494240/public-shaming-an-effective-new-way-of-collecting-taxes/>  
<https://www.thetimes.co.uk/edition/business/companies-pay-millions-to-avoid-shame-of-google-tax-mg2dknjct>

<sup>9</sup> <https://www.forbes.com/sites/joeharpaz/2017/06/26/public-shaming-of-big-companies-not-as-big-a-deal-as-you-d-think-but-not-going-away-anytime-soon/#594d2c706333>

<sup>10</sup> Due to limited publicly disclosed information, we could not tell whether these returnee directors have tax expertise or graduated from tax-related majors. We acknowledge this limitation in our study.

<sup>11</sup> While the standard tax rate is the same, companies may receive differential tax treatment depending on location and industry. Thus, each year, the applicable statutory tax rate may vary.

**Table 1**  
Sample selection and distribution.

Panel A: Sample selection procedure.				
			Number of observations	Number of unique firms
Firms listed on the Shanghai and Shenzhen Stock Exchanges in China during 2001–2016			30,204	3120
Less: Observations in the financial sector			(485)	(53)
Less: Observations with negative income before taxes			(3334)	(16)
Less: Observations with effective tax rate below zero, or effective tax rate above one			(3720)	(97)
Less: Observations with missing variables			(2751)	(448)
Final sample			<u>19,914</u>	<u>2506</u>

  

Panel B: Sample distribution by year				
Year	N	FOR_DUM = 1	FOR_DUM = 0	Percentage
(1)	(2)	(3)	(4)	(5) = (3)/ (2)
2001	680	113	567	16.62%
2002	746	215	531	28.82%
2003	843	288	555	34.16%
2004	879	318	561	36.18%
2005	850	295	555	34.71%
2006	922	335	587	36.33%
2007	960	346	614	36.04%
2008	921	378	543	41.04%
2009	1045	401	644	38.37%
2010	1296	537	759	41.44%
2011	1634	697	937	42.66%
2012	1765	763	1002	43.23%
2013	1845	834	1011	45.20%
2014	1845	865	980	46.88%
2015	1758	797	961	45.34%
2016	1925	923	1002	47.95%
Total	19,914	8105	11,809	40.70%

  

Panel C: Sample distribution by industry				
Industry	N	FOR_DUM = 1	FOR_DUM = 0	Percentage
(1)	(2)	(3)	(4)	(5) = (3)/ (2)
Agriculture (A)	250	74	176	29.60%
Mining (B)	446	166	280	37.22%
Manufacturing (C)				
Food, beverage, textile, garment and leather (C1)	1504	594	910	39.49%
Papermaking, furniture, medical and chemical (C2)	3814	1573	2241	41.24%
Metal, nonmetal, machinery and electronics (C3)	6659	2768	3891	41.57%
Other manufacturing (C4)	424	183	241	43.16%
Electronic and gas (D)	825	257	568	31.15%
Construction (E)	491	203	288	41.34%
Wholesale and retail (F)	1366	424	942	31.04%
Transportation (G)	813	341	472	41.94%
Accommodation and catering (H)	91	44	47	48.35%
Information and technology (I)	902	492	410	54.55%
Real estate (K)	1100	501	599	45.55%
Leasing and business services (L)	226	85	141	37.61%
Scientific research and technical services (M)	74	32	42	43.24%
Public Facilities Management (N)	191	81	110	42.41%
Residents services (O)	62	29	33	46.77%
Education (P)	4	3	1	75.00%
Health and social work (Q)	26	13	13	50.00%
Culture, sports and entertainment (R)	115	52	63	45.22%

(continued on next page)

Table 1 (continued)

Panel C: Sample distribution by industry				
Industry	N	<i>FOR_DUM</i> = 1	<i>FOR_DUM</i> = 0	Percentage
(1)	(2)	(3)	(4)	(5) = (3)/ (2)
Comprehensive (S)	531	190	341	35.78%
Total	19,914	8105	11,809	40.70%

This table presents the sample selection procedure in Panel A. Sample distribution by year is presented in Panel B. In panel B, column (1) is the year ranging from 2001 to 2016. Column (2) reports the number of observations in each year, while column (3) is the number of observations having at least one director with foreign experience (*FOR\_DUM* = 1). Column (4) is the number of observations that do not have directors with foreign experience (*FOR\_DUM* = 0), and column (5) is the percentage of observations having directors with foreign experience divided by the total number of observations. In other words, column (5) equals column (3)/ column (2). Industry distribution is reported in Panel C. In Panel C, column (1) is the industries based on CSRC 2012 category. Column (2) reports the number of observations in each year. Columns (3) and (4) report the number of observations having at least one returnee director (*FOR\_DUM* = 1) and without returnee directors (*FOR\_DUM* = 0) in each industry, respectively. Column (5) is the number of observations having directors with foreign experience in certain industries divided by the total number of observations, which equals column (3)/ column (2).

overseas talents to come back and work in China (Giannetti et al., 2015).

Panel C shows that the numbers and percentages of directors with foreign experience vary a lot across different industries. The top three industries having directors with foreign experience are Education (75%), Information and technology (54.55%), and Health and social work (50%). The bottom three industries with fewer foreign-experienced directors are Agriculture (29.60%), Wholesale and retail (31.04%), and Electronic and gas (31.15%).

### 3.2. Tax avoidance measures

Our dependent variable is tax avoidance. Effective tax rate (ETR) has been used widely as a measure of tax avoidance. However, ETR does not account for heterogeneity in statutory tax rates and cannot tell us whether tax savings are due to tax preferences or aggressive tax reporting. For Chinese listed firms, applicable statutory tax rates actually vary significantly due to various tax preferential policies (Wu et al., 2007; Shevlin et al., 2012).<sup>12</sup> For instance, high-tech companies have an applicable statutory tax rate of 15%, while companies in certain industries, including agriculture, forestry, animal husbandry, and fishery often enjoy tax exemptions. To address this issue, we follow Hanlon and Heitzman (2010) and Chan et al. (2016) and use the difference between applicable statutory income tax rate and effective tax rate to capture tax aggressiveness.<sup>13</sup> We calculate ETR in two ways: 1) *ETR1* is the total tax expense divided by pre-tax accounting income (Chen et al., 2010; Hanlon and Heitzman, 2010; McGuire et al., 2012); 2) We further consider the effect of deferred tax expense and compute *ETR2* as (the income tax expense-deferred tax expense)/ (income before taxes-deferred tax expense/statutory income tax rate). Therefore, our first proxy for tax avoidance, *TAXAVOID1*, is defined as firm's statutory income tax rate minus *ETR1*. Our second proxy, *TAXAVOID2*, is firm's statutory income tax rate minus *ETR2*. Our third proxy of tax avoidance is book-tax differences (*BTD*), which is calculated as the gap between accounting income and taxable income divided by end-of-period total assets. Book-tax differences as a tax avoidance measure is widely used in previous literature (e.g., Manzon Jr and Plesko, 2002; Wilson, 2009). By construction, higher values of *TAXAVOID1*, *TAXAVOID2*, and *BTD* represent more aggressive tax avoidance.<sup>14</sup> Detailed definitions of tax avoidance measures are presented in the Appendix.

### 3.3. Regression model

To examine the impact of directors' foreign experience on firms' tax avoidance, we use the following OLS model to do our analysis:

$$\begin{aligned}
 TAXAVOID_{i,t} &= \alpha_0 + \alpha_1 FOREIGN_{i,t} + \alpha_2 ROA_{i,t} + \alpha_3 SIZE_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 MB_{i,t} + \alpha_6 ROI_{i,t} + \alpha_7 PPE_{i,t} + \alpha_8 INTANG_{i,t} + \alpha_9 INVENT_{i,t} + \alpha_{10} \\
 &CFO_{i,t} + \alpha_{11} DONATION_{i,t} + Industry\ FE + Year\ FE + \varepsilon
 \end{aligned} \quad (1)$$

In Eq. (1), *FOREIGN* is our main test variable, which measures directors' foreign experience. We use two variables to measure directors' foreign experience. The first measure, *FOR\_DUM*, is a dummy variable that equals one if firm *i* has at least one director with foreign experience in year *t* and zero otherwise. The second measure, *FOR\_PER*, is a continuous measure and represents the percentage of directors with foreign experience among firm *i*'s board of directors. Following prior literature (e.g., Hanlon and Heitzman,

<sup>12</sup> For example, the passage of a new income tax law in 2008 has caused a large change in the statutory tax rate of firms, and a great number of listed companies in China enjoyed different levels of tax preferential policies.

<sup>13</sup> We also follow Tang et al. (2017) to adjust effective tax rate difference, and the results are similar. See Section 4.7 for details.

<sup>14</sup> In our robustness tests, we also use effective tax rate divided by applicable statutory tax rate to measure tax avoidance.

**Table 2**  
Summary statistics.

Panel A: Descriptive analysis.										
Variables	N	Mean	Std	P25	Median	P75				
Section A: Corporate tax avoidance variables										
TAXAVOID1	19,914	0.001	0.116	-0.035	0.003	0.052				
TAXAVOID2	19,914	0.001	0.113	-0.032	0.003	0.047				
ETRI	19,914	0.204	0.122	0.132	0.176	0.258				
ETR2	19,914	0.204	0.120	0.134	0.175	0.256				
BTD	19,914	-0.002	0.032	-0.014	-0.002	0.010				
Section B: Directors' foreign experience variables										
FOR_DUM	19,914	0.407	0.491	0.000	0.000	1.000				
FOR_PER	19,914	0.075	0.115	0.000	0.000	0.111				
FOR_HIP	19,914	0.400	0.490	0.000	0.000	1.000				
FOR_LIP	19,914	0.016	0.127	0.000	0.000	0.000				
FOR_IND	19,914	0.272	0.445	0.000	0.000	1.000				
FOR_NONIND	19,914	0.218	0.413	0.000	0.000	0.000				
FOR_AUDIT_PER1	19,914	0.020	0.056	0.000	0.000	0.000				
FOR_AUDIT_PER2	19,914	0.007	0.041	0.000	0.000	0.000				
FOR_WORK	19,914	0.179	0.384	0.000	0.000	0.000				
FOR_STUDY	19,914	0.350	0.477	0.000	0.000	1.000				
Section C: Other variables										
ROA	19,914	0.049	0.039	0.021	0.040	0.067				
SIZE	19,914	21.815	1.209	20.943	21.646	22.480				
LEV	19,914	0.445	0.200	0.293	0.449	0.600				
MB	19,914	3.669	2.859	1.843	2.814	4.467				
ROI	19,914	0.007	0.016	0.000	0.001	0.006				
PPE	19,914	0.250	0.175	0.113	0.217	0.356				
INTANG	19,914	0.043	0.048	0.012	0.029	0.055				
INVENT	19,914	0.164	0.151	0.064	0.125	0.209				
CFO	19,914	0.061	0.098	0.012	0.058	0.110				
DONATION	19,914	0.006	0.026	0.000	0.000	0.004				
SOE	19,914	0.475	0.499	0.000	0.000	1.000				
TE	19,914	0.070	2.507	-1.592	0.833	1.027				

Panel B: Correlation metrics															
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) TAXAVOID1	1	0.99***	0.75***	-0.01	-0.01	0.24***	-0.02*	-0.08***	0.04***	0.15***	0.06***	-0.02*	-0.11***	0.05***	-0.08***
(2) TAXAVOID2	0.97***	1	0.76***	-0.01	-0.01	0.24***	-0.02*	-0.08***	0.04***	0.15***	0.06***	-0.02*	-0.11***	0.05***	-0.08***
(3) BTD	0.52***	0.52***	1	-0.02**	-0.03**	0.21***	-0.02**	-0.08***	-0.00	0.13***	0.10***	-0.03***	-0.12***	0.07***	-0.11***
(4) FOR_DUM	-0.02*	-0.02*	-0.01	1	0.96***	0.08***	0.09***	-0.04**	0.04***	0.02***	-0.09***	0.01	-0.01	0.02**	0.05***
(5) FOR_PER	-0.01	-0.01	-0.02**	0.79***	1	0.09***	0.09***	-0.05***	0.04***	0.03***	-0.10***	0.02*	-0.01	0.02**	0.05***
(6) ROA	0.23***	0.23***	0.22***	0.08***	0.09***	1	-0.02**	-0.39***	0.27***	0.09***	-0.06***	0.02*	-0.16***	0.37***	-0.02**
(7) SIZE	-0.01	-0.01	-0.02**	0.10***	0.12***	-0.03***	1	0.40***	-0.32***	0.15***	-0.01	-0.04***	0.05***	0.06***	0.14***
(8) LEV	-0.09**	-0.09**	-0.06***	-0.04***	-0.04***	-0.36***	0.40***	1	-0.13***	0.00	-0.11***	-0.11***	0.29***	-0.11***	0.06***
(9) MB	0.04***	0.03***	0.02**	0.04***	0.04***	0.26***	-0.30***	-0.03***	1	0.01*	-0.17***	0.06***	-0.02**	0.08***	-0.06***

(continued on next page)



Table 2 (continued)

Panel B: Correlation metrics															
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(10) ROI	0.15***	0.16***	0.18***	0.02*	0.01	0.17***	0.02**	-0.04***	0.07***	1	-0.12***	-0.02**	-0.05***	-0.05***	0.01
(11) PPE	0.05***	0.05***	0.06***	-0.09***	-0.08***	-0.07***	0.05***	0.03***	-0.15***	-0.12***	1	0.18***	-0.33***	0.30***	-0.02***
(12) INTANT	-0.01	-0.01	-0.01	-0.00	0.00	0.01	-0.02**	-0.04***	0.04***	-0.01	0.05***	1	-0.16***	0.09***	0.14***
(13) INVENT	-0.12***	-0.12***	-0.11***	0.00	-0.00	-0.15***	0.12***	0.34***	-0.04***	-0.06***	-0.40***	-0.22***	1	-0.26***	0.11***
(14) CFO	0.06***	0.06***	0.05***	0.02*	0.02***	0.37***	0.04***	-0.12***	0.08***	-0.09***	0.26***	0.10***	-0.27***	1	-0.02*
(15) DONATION	-0.14***	-0.13***	-0.05***	0.03***	0.01	-0.10***	-0.02*	0.02***	-0.03***	-0.02**	0.02*	0.03***	0.04***	-0.03***	1

  

Panel C: Univariate analysis.					
	FOR_DUM = 1		FOR_DUM = 0		Difference
	Obs	Mean	Obs	Mean	
TAXAVOID1	8105	-0.002	11,809	0.002	-0.004**
TAXAVOID2	8105	-0.002	11,809	0.001	-0.004**
BTD	8105	-0.003	11,809	-0.002	0.001

This table reports descriptive statistics for our main regression variables in Panel A. Pearson and Spearman correlations are presented in Panel B. The left below triangle presents Pearson correlation analyses while the right triangle above shows Spearman correlation results. Panel C shows the univariate tests of our main dependent variables—tax avoidance (*TAXAVOID1*, *TAXAVOID2*, and *BTD*). The detailed definitions of variables are presented in the Appendix. All continuous variables are winsorized at the top and bottom 1%, \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively.

2010), we also add a group of control variables, including *ROA* (return on asset), *SIZE* (firm size), *LEV* (leverage), *MB* (market-to-book ratio), *ROI* (return on investment), *PPE* (property plant and equipment), *INTANG* (intangible assets), *INVENT* (inventory), *CFO* (operating cash flow), and *DONATION* (annual corporate donation amount). All variable definitions are presented in the Appendix. In the regression, we control both industry and year fixed effects and cluster standard error at the firm-level. All continuous variables are winsorized at the top and bottom 1%.

## 4. Empirical results

### 4.1. Summary statistics and univariate analysis

Table 2 Panel A presents descriptive statistics of all major variables in our study. Section A reports descriptive statistics of the dependent variable, corporate tax avoidance. The mean (median) value of both *TAXAVOID1* and *TAXAVOID2* are 0.001 (0.003), which indicates that firms, in general, engage in tax avoidance activities, as their effective tax rate is less than the statutory tax rate.<sup>15</sup> The effective tax rate is about 20%, which is close to those numbers reported in prior studies (e.g., Tang et al., 2017; Lin et al., 2018). For our third tax avoidance measure, *BTD*, both the mean and median values are  $-0.002$ . Section B reports several variables capturing directors' foreign experience. The mean of *FOR\_DUM* suggests that on average, 40.7% of firm-year observations have at least one director with foreign experience. About 7.5% of board directors have foreign experience as indicated by the mean of *FOR\_PER*. The means of *FOR\_HIP* and *FOR\_LIP* are 0.400 and 0.016, respectively, suggesting that most returnee directors obtained foreign experience from countries or regions with better investor protection environments. On average, 27.2% of firms have at least one independent director with foreign experience (*FOR\_IND*), while 21.8% of firms have at least one non-independent returnee director (*FOR\_NONIND*). The mean value of *FOR\_WORK* (*FOR\_STUDY*) is 0.179 (0.350), indicating that 17.9% (35.0%) of directors have foreign working (studying) experience. Section C presents descriptive statistics of control variables. The numbers are generally consistent with those reported in previous studies (Giannetti et al., 2015; Yuan and Wen, 2018; Zhang et al., 2018). For example, firms in our sample have an average return on assets of 0.049, firm size of 21.815, leverage of 0.445, and market-to-book ratio of 3.669.

We report Pearson and Spearman correlations in Panel B of Table 2. The left triangle below presents Pearson correlation analyses, while the right triangle above shows Spearman correlation results. We find that both directors' foreign experience measures (*FOR\_DUM* and *FOR\_PER*) are negatively correlated with our tax avoidance proxies (*TAXAVOID1*, *TAXAVOID2*, and *BTD*), suggesting returnee directors have negative impacts on corporate tax avoidance. Furthermore, the three tax avoidance measures are highly and positively correlated with each other, indicating that these three proxies are likely to capture consistent information. The panel also shows that all correlations between the control variables are relatively low. Nevertheless, we compute variance inflation factor (VIF) for the control variables and find the largest value is 1.65, far below the cut-off threshold of 10 (Kennedy, 1998), which suggests that multicollinearity is not a serious problem in our study.

Panel C of Table 2 further reports the univariate testing result. The mean values of *TAXAVOID1* and *TAXAVOID2* are both  $-0.002$  for firms hiring directors with foreign experience, and 0.002 and 0.001, respectively, for firms without returnee directors. The differences are both statistically significant at the 5% level. This indicates that firms without returnee directors are more tax aggressive compared with firms hiring returnee directors. The mean value for *BTD* is  $-0.003$  ( $-0.002$ ) for firms with (without) directors with foreign experience, but the difference is insignificant.

### 4.2. Main results

To examine how directors' foreign experience affects corporate tax avoidance, we employ our OLS regression model (1). Specifically, we regress our tax avoidance proxies on the measures of directors' foreign experience. The main regression results are reported in Table 3. In the first two columns, the dependent variable is *TAXAVOID1*. For both measures of directors' foreign experience (*FOR\_DUM* in column (1) and *FOR\_PER* in column (2)), we find that the coefficients are negative and statistically significant at the 1% level. The results suggest that firms with returnee directors are less tax aggressive compared to firms without returnee directors. The economic magnitude is also significant. For example, the coefficient on *FOR\_DUM* is  $-0.006$ , suggesting that firms with at least one director with foreign experience pay 0.6% more tax than firms without returnee directors do. If we look at the continuous measure, the coefficient on *FOR\_PER* is  $-0.023$ , which means one standard deviation increases in *FOR\_PER* corresponds to 0.3% decreases in *TAXAVOID1* ( $-0.023 \times 0.115 = -0.003$ ). In columns (3) and (4), we use *TAXAVOID2* as our dependent variable. The results are very similar.

In the last two columns (columns (5) and (6)), we use book-tax difference (*BTD*) as our dependent variable. The coefficient on *FOR\_DUM* is  $-0.001$  ( $t = -2.321$ ) and significant at the 5% level in column (5), while the coefficient on *FOR\_PER* is  $-0.007$  ( $t = -2.191$ ) and significant at the 5% level in column (6). Again, the results indicate that firms having directors with foreign experience have lower book-tax difference than those firms without these talents. In terms of economic magnitude, firms with at least one director with foreign experience are associated with a 0.1% decrease in *BTD*, and one standard deviation increases in *FOR\_PER* corresponds to 0.1% decreases in *BTD*.

<sup>15</sup> While the mean seems to be low, one should note that this is after adjusting for the applicable statutory tax rate, not the standard tax rate, due to the fact that different companies may be applicable to differential tax rates.

**Table 3**  
Directors with foreign experience and tax avoidance.

	TAXAVOID1		TAXAVOID2		BTD	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_DUM</i>	-0.006*** (-2.874)		-0.006*** (-2.921)		-0.001** (-2.321)	
<i>FOR_PER</i>		-0.023*** (-2.591)		-0.023*** (-2.618)		-0.007** (-2.191)
<i>ROA</i>	0.678*** (17.484)	0.678*** (17.469)	0.658*** (17.457)	0.657*** (17.439)	0.212*** (29.353)	0.213*** (13.016)
<i>SIZE</i>	0.000 (0.132)	0.000 (0.132)	0.000 (0.172)	0.000 (0.172)	-0.001** (-2.544)	-0.001 (-1.254)
<i>LEV</i>	0.015* (1.749)	0.015* (1.740)	0.018** (2.191)	0.018** (2.181)	0.010*** (6.594)	0.010*** (3.597)
<i>MB</i>	-0.001** (-2.067)	-0.001** (-2.084)	-0.001** (-2.248)	-0.001** (-2.267)	-0.000*** (-2.292)	-0.000** (-2.287)
<i>ROI</i>	0.831*** (11.296)	0.831*** (11.288)	0.828*** (11.332)	0.827*** (11.317)	0.294*** (20.979)	0.294*** (7.861)
<i>PPE</i>	0.034*** (4.022)	0.035*** (4.081)	0.030*** (3.633)	0.031*** (3.693)	0.015*** (9.239)	0.015*** (6.383)
<i>INTANG</i>	-0.033 (-1.240)	-0.032 (-1.220)	-0.031 (-1.159)	-0.030 (-1.140)	-0.003 (-0.541)	-0.003 (-0.379)
<i>INVENT</i>	-0.064*** (-4.881)	-0.064*** (-4.875)	-0.067*** (-5.078)	-0.067*** (-5.075)	-0.014*** (-6.462)	-0.014*** (-4.057)
<i>CFO</i>	-0.043*** (-4.386)	-0.043*** (-4.375)	-0.040*** (-4.155)	-0.040*** (-4.143)	-0.016*** (-6.321)	-0.016*** (-4.351)
<i>DONATION</i>	-0.521*** (-5.715)	-0.523*** (-5.739)	-0.468*** (-5.725)	-0.470*** (-5.754)	-0.022*** (-2.622)	-0.022*** (-2.755)
Constant	-0.058* (-1.844)	-0.059* (-1.865)	-0.058* (-1.910)	-0.059* (-1.932)	-0.001 (-0.147)	-0.002 (-0.180)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.113	0.113	0.111	0.111	0.108	0.108

This table reports the impact of directors with foreign experience on corporate tax avoidance. The dependent variables include the differences between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The test variables are directors' foreign experience (*FOR\_DUM* and *FOR\_PER*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

The coefficients on control variables are largely consistent with those reported in prior literature. For example, the coefficient on *ROA* is positive and significant, which is consistent with [Armstrong et al. \(2012\)](#). The coefficient on *INVENT* is negatively significant, which is consistent with [Lanis et al. \(2017\)](#). The coefficient on *DONATION* is also negatively significant. This suggests that firms investing in corporate social responsibility depress tax avoidance, consistent with [Hoi et al. \(2013\)](#). In summary, the results reported in [Table 3](#) suggest a negative relationship between directors' foreign experience and tax avoidance, and the effect is both statistically and economically significant.

#### 4.3. Address self-selection bias

Although we document a significant and negative association between directors with foreign experience and tax avoidance, our result may suffer from an endogeneity issue. Firms engaging in less tax avoidance might be more likely to hire directors with foreign experience. In other words, hiring directors with foreign experience may not be a random choice for firms, which can cause self-selection bias. Accordingly, in this subsection, we use the Heckman two-stage method to mitigate this endogeneity concern.

In the first stage, we construct a Probit model (see model (2) below) to estimate the probability of firms hiring directors with foreign experience. Following [Yuan and Wen \(2018\)](#), we consider the following factors of appointing directors with foreign experience, including state control (*SOE*, dummy variable that equals one if the firm is a state-owned entity, otherwise equals zero), CEO simultaneously serving as chairman (*DUALITY*, a dummy variable that equals one if the firm has its CEO simultaneously serve as chairman, otherwise equals zero), board size (*BFSIZE*, the number of directors on the board), managerial ownership (*MANO*, the shares held by managers divided by total number of shares), firm size (*SIZE*, the natural logarithm of the firm's book value of total assets plus one), leverage (*LEV*, the firm's total liabilities divided by total assets), return on assets (*ROA*, net income divided by total assets), and book-to-market ratio (*BM*, total book value of equity divided by market value of equity). As Heckman's model requires an exogenous variable, we use the mean percentage of appointing directors with foreign experience within the firm's industry and year, excluding the firm concerned (*FOR\_INDUS*) to satisfy this requirement. Firms with similar industrial conditions may share common incentives to have directors with foreign experience, so *FOR\_INDUS* is likely to be positively associated with *FOR\_DUM* and *FOR\_PER*. However,

**Table 4**  
Heckman two-stage sample selection analysis.

Panel A	<i>FOR_DUM</i> <sub><i>i,t+1</i></sub>	Panel B	<i>TAXAVOID1</i>		<i>TAXAVOID2</i>		<i>BTD</i>	
	(1)		(1)	(2)	(3)	(4)	(5)	(6)
<i>SOE</i>	-0.226*** (-9.360)	<i>FOR_DUM</i>	-0.006** (-2.179)		-0.006** (-2.292)		-0.001 (-1.274)	
<i>DUALITY</i>	0.042 (1.389)	<i>FOR_PER</i>		-0.022** (-2.088)		-0.023** (-2.231)		-0.006* (-1.715)
<i>BSIZE</i>	0.048*** (8.267)	<i>ROA</i>	0.676*** (15.220)	0.677*** (15.250)	0.666*** (15.298)	0.667*** (15.328)	0.222*** (25.514)	0.222*** (11.425)
<i>MANO</i>	0.213* (1.860)	<i>SIZE</i>	-0.000 (-0.070)	0.000 (0.003)	-0.000 (-0.017)	0.000 (0.064)	-0.000 (-0.882)	-0.000 (-0.466)
<i>SIZE</i>	0.184*** (13.908)	<i>LEV</i>	0.017* (1.736)	0.017* (1.696)	0.018* (1.923)	0.018* (1.879)	0.011*** (5.932)	0.011*** (3.397)
<i>LEV</i>	-0.358*** (-5.106)	<i>MB</i>	-0.001* (-1.920)	-0.001* (-1.908)	-0.001** (-2.195)	-0.001** (-2.181)	-0.000*** (-2.694)	-0.000 (-1.429)
<i>ROA</i>	0.682** (2.068)	<i>ROI</i>	0.929*** (11.545)	0.928*** (11.534)	0.916*** (11.491)	0.914*** (11.473)	0.323*** (19.808)	0.323*** (8.008)
<i>BM</i>	-0.507*** (-8.574)	<i>PPE</i>	0.041*** (4.318)	0.041*** (4.355)	0.038*** (4.107)	0.038*** (4.143)	0.015*** (7.906)	0.015*** (5.686)
<i>FOR_INDU</i>	0.639*** (7.353)	<i>INTANG</i>	-0.021 (-0.741)	-0.021 (-0.730)	-0.016 (-0.546)	-0.015 (-0.536)	-0.004 (-0.640)	-0.004 (-0.462)
		<i>INVENT</i>	-0.066*** (-4.384)	-0.066*** (-4.382)	-0.067*** (-4.456)	-0.067*** (-4.459)	-0.017*** (-6.775)	-0.017*** (-4.307)
		<i>CFO</i>	-0.040*** (-3.439)	-0.040*** (-3.439)	-0.040*** (-3.608)	-0.040*** (-3.607)	-0.016*** (-5.413)	-0.016*** (-3.678)
		<i>DONATION</i>	-0.498*** (-5.354)	-0.500*** (-5.376)	-0.458*** (-5.467)	-0.459*** (-5.494)	-0.019** (-2.102)	-0.019** (-2.336)
		<i>IMR</i>	-0.010 (-0.830)	-0.012 (-0.952)	-0.012 (-0.965)	-0.013 (-1.088)	-0.009*** (-3.498)	-0.009** (-2.335)
Constant	-4.753*** (-17.025)	Constant	-0.065* (-1.835)	-0.068* (-1.898)	-0.063* (-1.839)	-0.066* (-1.910)	-0.005 (-0.794)	-0.007 (-0.572)
Year FE	YES	Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	Industry FE	YES	YES	YES	YES	YES	YES
Observations	15,177	Observations	15,510	15,510	15,510	15,510	15,510	15,510
Adjusted R2	0.037	Adjusted R2	0.112	0.112	0.111	0.111	0.112	0.113

This table presents the Heckman two-stage results. In the first stage, we use *FOR\_DUM* as the main dependent variable and run a probit regression (see model (2)). *FOR\_INDUS* is an exogenous variable, which is the mean percentage of appointing directors with foreign experience within the firm's industry in year *t*, excluding the firm concerned. In the second stage, we add *IMR* from first stage in our main regression and run the regression of directors with foreign experience on tax avoidance. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The test variables are directors' foreign experience (*FOR\_DUM* and *FOR\_PER*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

industry peers' decision to appoint directors with foreign experience may not be correlated with their own tax avoidance levels. The model is summarized below:

$$FOR\_DUM_{i,t+1} = \beta_0 + \beta_1 SOE_{i,t} + \beta_2 DUALITY_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 MANO_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 ROA_{i,t} + \beta_8 BM_{i,t} + \beta_9 FOR\_INDUS_{i,t} + Year\ FE + Industry\ FE + \varepsilon \tag{2}$$

The result of estimating model (2) is reported in Panel A of Table 4. We find that firms with larger boards of directors, higher managerial ownership, larger firm size, and better profit margin are more likely to hire directors with foreign experience. However, state-owned entities and firms with higher leverage and larger book-to-market ratios are less likely to hire returnee directors. Specifically, *FOR\_INDU* is positively significant at the 1% level, suggesting that the exogenous variable is valid. The first stage regression generates the inverse Mills ratio (*IMR*), and we include it in the second stage regression to control for self-selection bias. Other control variables in the second stage model are the same as model (1). We report the result of the second stage regression in Panel B of Table 4. The result shows that the coefficients on *FOR\_DUM* and *FOR\_PER* remain negative and statistically significant in five out of six columns. In sum, the result presented in Table 4 suggests that our finding is unlikely to be driven by the potential self-selection bias.

4.4. Additional control variables

In our main regression specification, we include a battery of control variables to help mitigate the concern that our results may suffer from other omitted determinants of tax avoidance. In this subsection, we further include several additional control variables

**Table 5**  
Including additional control variable.

Panel A	TAXAVOID1							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FOR_DUM	-0.006*** (-2.835)	-0.007*** (-2.910)	-0.007*** (-3.017)	-0.007*** (-3.045)				
FOR_PER					-0.023** (-2.562)	-0.024*** (-2.614)	-0.022** (-2.456)	-0.022** (-2.456)
ABACC	0.047** (2.566)			0.055*** (2.883)	0.047** (2.548)			0.055*** (2.871)
IC		0.006 (1.328)		0.003 (0.710)		0.006 (1.343)		0.003 (0.731)
MA			-0.041*** (-3.453)	-0.038*** (-3.183)			-0.040*** (-3.421)	-0.038*** (-3.156)
Constant	-0.048 (-1.514)	-0.070** (-2.170)	-0.066** (-1.999)	-0.064* (-1.856)	-0.049 (-1.539)	-0.071** (-2.195)	-0.067** (-2.014)	-0.065* (-1.876)
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE/ Ind FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	19,703	19,643	14,993	14,648	19,703	19,643	14,993	14,648
Adjusted R <sup>2</sup>	0.114	0.113	0.124	0.126	0.114	0.113	0.123	0.125
Panel B	TAXAVOID2							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FOR_DUM	-0.006*** (-2.900)	-0.007*** (-2.973)	-0.007*** (-3.160)	-0.007*** (-3.229)				
FOR_PER					-0.023*** (-2.601)	-0.024*** (-2.681)	-0.022** (-2.540)	-0.023*** (-2.595)
ABACC	0.055*** (3.104)			0.065*** (3.524)	0.055*** (3.084)			0.065*** (3.508)
IC		0.004 (0.953)		0.001 (0.287)		0.004 (0.968)		0.001 (0.309)
MA			-0.041*** (-3.669)	-0.039*** (-3.434)			-0.041*** (-3.637)	-0.039*** (-3.407)
Constant	-0.047 (-1.515)	-0.068** (-2.155)	-0.061* (-1.913)	-0.055* (-1.662)	-0.048 (-1.540)	-0.069** (-2.184)	-0.062* (-1.928)	-0.057* (-1.686)
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE/ Ind FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	19,703	19,643	14,993	14,648	19,703	19,643	14,993	14,648
Adjusted R <sup>2</sup>	0.112	0.111	0.124	0.126	0.112	0.111	0.123	0.126
Panel C	BTD							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FOR_DUM	-0.001 (-1.583)	-0.001* (-1.667)	-0.001* (-1.808)	-0.001* (-1.947)				
FOR_PER					-0.007** (-2.199)	-0.007** (-2.243)	-0.008** (-2.249)	-0.008** (-2.301)
ABACC	0.025*** (2.616)			0.027** (2.430)	0.025*** (2.592)			0.027** (2.408)
IC		0.000 (0.197)		0.000 (0.121)		0.000 (0.199)		0.000 (0.126)
MA			-0.024*** (-5.017)	-0.025*** (-5.020)			-0.024*** (-4.998)	-0.024*** (-5.004)
Constant	0.003 (0.249)	-0.002 (-0.139)	0.007 (0.573)	0.011 (0.788)	0.002 (0.146)	-0.003 (-0.236)	0.006 (0.470)	0.009 (0.686)
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE/ Ind FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	19,703	19,643	14,993	14,648	19,703	19,643	14,993	14,648
Adjusted R <sup>2</sup>	0.112	0.109	0.098	0.104	0.112	0.109	0.098	0.104

This table presents the regression results by including additional variables. These additional variables include earnings management (ABACC, abnormal accruals calculated by using a performance-adjusted discretionary accruals model (Kothari et al., 2005)), internal control effectiveness (IC, the natural logarithm of internal control index retrieved from DIB Internal Control and Risk Management Database), and managerial ability (MA, calculated using data envelopment analysis developed in Demerjian et al. (2012)). The dependent variables are TAXAVOID1, TAXAVOID2, and BTD in panels A, B and C, respectively. The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

that may also affect corporate tax avoidance (e.g., Frank et al., 2009). First, we control for the level of earnings management (*ABACC*). Earnings management is one of the potential channels for firms to avoid tax. Previous literature finds that earnings management is positively related to corporate tax avoidance decisions (Frank et al., 2009). In addition, managers may conduct tax-induced earnings management (Li et al., 2016). Thus, we control for abnormal accruals calculated by using a performance-adjusted discretionary accruals model (Kothari et al., 2005). Second, we include internal control effectiveness (*IC*) in our regression. High internal information quality reduces corporate tax avoidance (Gallemore and Labro, 2015), and better internal control can curb managerial self-interest incentives for corporate tax avoidance. We obtain the internal control index from DIBO (DIB) Internal Control and Risk Management Database. We take the natural logarithm of the internal control index, and higher values represent better internal control quality. Third, we control for managerial ability (*MA*) in our model. Koester et al. (2016) and Park et al. (2016) both reveal that managerial ability is an important determinant of tax planning activities, but their results are inconclusive. In addition, directors' foreign experience may proxy for superior managerial ability, and thus, our result might suggest that directors with superior ability reduce corporate tax avoidance. To rule out this alternative explanation, following Yuan and Wen (2018), we estimate managerial ability using the data envelopment analysis developed in Demerjian et al. (2012) and add *MA* into our regression model.

We report the result using *TAXAVOID1* as the dependent variable in Panel A of Table 5. Consistent with previous studies, we find that earnings management is positively correlated with tax avoidance, as suggested by the positive and significant coefficients on *ABACC*. More importantly, the coefficients on the measures of directors with foreign experience (*FOR\_DUM* in column (1) and *FOR\_PER* in column (5)) remain significantly negative. Columns (2) and (6) in Table 5 Panel A report the results including internal control (*IC*). While the coefficients on *IC* are not statistically significant in our sample, the negative association between returnee directors and tax avoidance still holds. We report the results of including managerial ability (*MA*) in columns (3) and (7) in Panel A. The results do suggest that managerial ability is negatively associated with tax avoidance. We can also see that after controlling for managerial ability, our measures of directors' foreign experience are still negatively related to tax avoidance.

Finally, we include all these additional control variables and report the results in columns (4) and (8). The results show that after controlling for earnings management, internal control, and managerial ability, directors' foreign experience is still negatively associated with tax avoidance, suggesting that our finding is unlikely to be driven by potentially omitted variables. Table 5 Panels B and C are the results using the other two dependent variables, and they are similar to those reported in Panel A. Note that the sample size is reduced with additional data requirements for constructing these additional variables.

#### 4.5. Instrumental variable (IV) approach

While we include several additional variables in the model, it is still possible that some unobservable firm characteristics drive our result. To further alleviate this concern, we adopt two instrument variables and use the 2SLS approach to adjust potential endogeneity bias. First, following Yuan and Wen (2018), we choose the industry mean percentage of firms appointing directors with foreign experience excluding the firm concerned (*FOR\_INDUS*) as our first instrumental variable. Second, following Ang et al. (2014), we consider British colonies in Chinese history. People living in provinces or cities which were previously British settlements have more opportunities to experience western culture and values. They are more likely to study or work abroad, as well as return to their hometown and work for companies there. In addition, as these regions opened their economies to western countries early, they are more likely to attract returnee talents due to their western-style values and lifestyles. The British colony dummy variable (*BRITISH*) equals one if firms located in the province had a concession or leased territory established by Great Britain during the late Qing dynasty and zero otherwise.<sup>16</sup> We predict that *BRITISH* should be positively associated with firms' decisions to hire directors with foreign experience. Because whether these regions/cities became British colonies was decided one hundred years ago, it is unlikely to directly affect firms' tax avoidance decisions in the twenty-first century. We conduct weak identification and over identification tests for our instrumental variables and verify that the two instruments are indeed strong instruments.

We report the results of this analysis in Table 6. Panel A reports the first stage result. We find that the coefficients on both *FOR\_INDUS* and *BRITISH* are positively significant at the 1% level, indicating that our instruments are highly correlated with firms' propensity for hiring directors with foreign experience. Panel B of Table 6 presents the result of the second stage. The coefficients on *FOR\_DUM* and *FOR\_PER* are generally negatively significant across columns (1) to (6). The results illustrate that after controlling for potential endogeneity issues, directors' foreign experience is still negatively correlated with corporate tax avoidance.

#### 4.6. Change analysis

To ensure the reliability and robustness of our result, we perform a change analysis to test whether appointing returnee directors depresses corporate tax avoidance. In Model (3), the dependent variable  $\Delta TAXAVOID$  stands for the change in tax avoidance, calculated by the variation in corporate tax avoidance from last year to this year.  $\Delta FOREIGN$  stands for the variation in directors' foreign experience from year  $t-1$  to year  $t$ . The control variables are also measured by their changes.

<sup>16</sup> Great Britain established settlements in the following provinces or cities: Xiamen (in Fujian province), Hankou (in Hubei province), Jiujiang (in Jiangxi province), Zhenjiang (in Jiangsu province), Guangzhou (in Guangdong province), Weihaiwei (in Shandong province), Tianjin, and Shanghai.

**Table 6**  
Instrumental variable analysis (2SLS).

Panel A	<i>FOR_DUM</i>	Panel B	<i>TAXAVOID1</i>		<i>TAXAVOID2</i>		<i>BTD</i>	
	(1)		(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_INDUS</i>	0.870*** (9.915)	<i>FOR_DUM</i>	-0.038* (-1.925)		-0.035* (-1.807)		-0.009* (-1.715)	
<i>BRITISH</i>	0.110*** (5.906)	<i>FOR_PER</i>		-0.120* (-1.691)		-0.109 (-1.582)		-0.033* (-1.673)
<i>ROA</i>	1.111*** (3.660)	<i>ROA</i>	0.689*** (25.169)	0.686*** (25.376)	0.668*** (25.035)	0.665*** (25.231)	0.216*** (28.195)	0.215*** (28.495)
<i>SIZE</i>	0.165*** (15.406)	<i>SIZE</i>	0.002 (1.400)	0.002 (1.211)	0.002 (1.338)	0.002 (1.155)	-0.000 (-0.309)	-0.000 (-0.355)
<i>LEV</i>	-0.349*** (-5.439)	<i>LEV</i>	0.010* (1.700)	0.011* (1.755)	0.014** (2.386)	0.015** (2.433)	0.009*** (5.136)	0.009*** (5.081)
<i>MB</i>	0.031*** (7.328)	<i>MB</i>	-0.001* (-1.739)	-0.001** (-2.029)	-0.001** (-2.091)	-0.001** (-2.381)	-0.000*** (-2.756)	-0.000*** (-2.971)
<i>ROI</i>	-0.494 (-0.842)	<i>ROI</i>	0.826*** (16.333)	0.824*** (16.328)	0.824*** (16.716)	0.822*** (16.705)	0.293*** (20.724)	0.292*** (20.720)
<i>PPE</i>	-0.526*** (-7.566)	<i>PPE</i>	0.028*** (3.962)	0.032*** (5.042)	0.025*** (3.608)	0.028*** (4.607)	0.013*** (6.865)	0.014*** (8.179)
<i>INTANT</i>	-0.257 (-1.251)	<i>INTANG</i>	-0.035** (-2.000)	-0.032* (-1.853)	-0.033* (-1.928)	-0.030* (-1.790)	-0.003 (-0.673)	-0.003 (-0.535)
<i>INVENT</i>	-0.322*** (-3.540)	<i>INVENT</i>	-0.068*** (-8.378)	-0.067*** (-8.366)	-0.070*** (-8.881)	-0.069*** (-8.875)	-0.015*** (-6.585)	-0.015*** (-6.603)
<i>CFO</i>	0.020 (0.179)	<i>CFO</i>	-0.043*** (-4.545)	-0.042*** (-4.501)	-0.039*** (-4.306)	-0.039*** (-4.262)	-0.016*** (-6.195)	-0.016*** (-6.151)
<i>DONATION</i>	1.784*** (4.836)	<i>DONATION</i>	-0.500*** (-14.902)	-0.515*** (-16.410)	-0.450*** (-13.758)	-0.463*** (-15.149)	-0.017* (-1.812)	-0.020** (-2.320)
Constant	-4.365*** (-17.338)	Constant	-0.085*** (-3.162)	-0.086*** (-2.989)	-0.083*** (-3.168)	-0.084*** (-2.988)	-0.008 (-1.076)	-0.009 (-1.145)
Year	YES	Year FE	YES	YES	YES	YES	YES	YES
Industry	YES	Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,907	Observations	19,907	19,907	19,907	19,907	19,907	19,907
Adjusted R <sup>2</sup>	0.041	Adjusted R <sup>2</sup>	0.098	0.106	0.098	0.105	0.094	0.101

This table shows the results of instrument variable tests. Panel A reports the first stage result. We run probit regression on our main independent variable, *PER\_DUM*. We adopt two instrument variables. The first IV is *FOR\_INDUS*, which is the industry mean percentage of firms appointing directors with foreign experience in the same industry and year, excluding the firm concerned (Yuan and Wen, 2018). The second IV is British colony dummy variable (*BRITISH*), which equals one if firms located in the province had a concession or leased territory established by Great Britain during the late Qing dynasty, and zero otherwise (Ang et al., 2014). Panel B reports the second stage results. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The test variables are directors' foreign experience (*FOR\_DUM* and *FOR\_PER*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

$$\Delta TAXAVOID_{i,t} = \alpha_0 + \alpha_1 \Delta FOREIGN_{i,t} + \alpha_2 \Delta ROA_{i,t} + \alpha_3 \Delta SIZE_{i,t} + \alpha_4 \Delta LEV_{i,t} + \alpha_5 \Delta MB_{i,t} + \alpha_6 \Delta ROI_{i,t} + \alpha_7 \Delta PPE_{i,t} + \alpha_8 \Delta INTANG_{i,t} + \alpha_9 \Delta INVENT_{i,t} + \alpha_{10} \Delta CFO_{i,t} + \alpha_{11} \Delta DONATION_{i,t} + Industry FE + Year FE + \epsilon \tag{3}$$

The result of estimating model (3) is reported in Table 7. The coefficient on  $\Delta FOR\_DUM$  is -0.002 ( $t = -2.007$ ) and significant at the 5% level in column (1), while the coefficient on  $\Delta FOR\_PER$  is -0.003 ( $t = -2.178$ ) and also significant at the 5% level in column (2). Again, the results indicate that firms having directors with foreign experience are less tax aggressive than those without returnee directors. The coefficient on  $\Delta BTD$  is -0.001 ( $t = -0.948$ ) in column (3) but insignificant. The above results largely support the notion that the appointing of returnee directors leads to reductions in corporate tax avoidance.

#### 4.7. Alternative measures of tax avoidance

To further ensure the robustness of our result, we use alternative measures of tax avoidance as a robustness check. First, since Chinese listed companies typically have different applicable tax rates due to different tax preferential policies, Tang et al. (2017) use *METR*, which is effective tax rate divided by applicable statutory tax rate, to measure tax avoidance. Following Tang et al. (2017), we define two variables, *METR1* and *METR2*. *METR1* is firm *i*'s effective tax rate in year *t* divided by applicable statutory tax rate, where the effective tax rate equals firm *i*'s total income tax expense divided by income before taxes. *METR2* is firm *i*'s effective tax rate in year *t* divided by applicable statutory tax rate, where the effective tax rate = (income tax expense - deferred tax expense) / (income before taxes - deferred tax expense / statutory income tax rate). A higher *METR1* or *METR2* implies a lower level of tax avoidance. Second, since our tax avoidance measures rely on firms' reported income, firms' earnings management activities may make their true

**Table 7**  
Change analysis.

	$\Delta TAXAVOID1$	$\Delta TAXAVOID2$	$\Delta BTD$
	(1)	(2)	(3)
$\Delta FOR\_DUM$	-0.002** (-2.007)	-0.003** (-2.178)	-0.001 (-0.948)
$\Delta ROA$	0.948*** (18.356)	0.913*** (18.163)	0.318*** (12.248)
$\Delta SIZE$	-0.004 (-1.015)	-0.004 (-1.036)	-0.003** (-2.039)
$\Delta LEV$	0.011 (0.760)	0.013 (0.864)	0.002 (0.315)
$\Delta MB$	-0.000 (-0.177)	-0.001 (-1.038)	-0.001*** (-3.550)
$\Delta ROI$	0.400*** (3.982)	0.388*** (3.970)	0.054 (1.219)
$\Delta PPE$	0.006 (0.380)	0.004 (0.256)	0.007 (1.480)
$\Delta INTANG$	0.069 (1.313)	0.054 (1.010)	-0.009 (-0.674)
$\Delta INVENT$	-0.033 (-1.477)	-0.030 (-1.392)	-0.016*** (-2.665)
$\Delta CFO$	-0.008 (-0.742)	-0.007 (-0.649)	-0.006 (-1.426)
Constant	0.008*** (3.503)	0.007*** (3.465)	0.004*** (5.683)
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	17,408	17,408	17,408
Adjusted R <sup>2</sup>	0.061	0.058	0.072

This table reports the result of change analysis. The dependent variables ( $\Delta TAXAVOID1$ ,  $\Delta TAXAVOID2$ , and  $\Delta BTD$ ) stand for the changes in tax avoidance, calculated by the variation in corporate tax avoidance measures from year t-1 to year t.  $\Delta FOREIGN$  stands for the variation in directors' foreign experience dummy variable from year t-1 to year t. The control variables are also measured as their changes. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

accounting profits unobservable. To overcome this problem, we use abnormal book-tax difference (*DBTD*) to proxy for tax avoidance, following [Desai and Dharmapala \(2006, 2009\)](#). *DBTD* is the residual part of regressing total book-tax difference (*BTD*) on total accruals (*TA*). *TA* is net income minus cash flows from operations divided by total assets. *DBTD* is a measure of unexplained total book-tax differences, which controls for earnings management. A lower *DBTD* implies a lower level of tax avoidance.

We report the result of alternative tax avoidance measures in [Table 8](#). Columns (1)–(2) and columns (3)–(4) report regression results using *METR1* or *METR2* as dependent variables, respectively. The coefficients on *FOR\_DUM* and *FOR\_PER* are all significantly positive at the 1% level, suggesting that the presence and percentage of directors with foreign experience on boards reduce corporate tax avoidance. Columns (5)–(6) present the results of using *DBTD* as the dependent variable. In column (5), the coefficient on *FOR\_DUM* is negative, which is consistent with our prediction, though not significant. In column (6), the coefficient on *FOR\_PER* is negatively significant at the 5% level, suggesting firms with larger percentages of returnee directors on their boards are associated with lower tax avoidance. The above result shows that our results are consistent with alternative tax avoidance measures.

## 5. Further analyses

### 5.1. The effect of tax enforcement

In our hypothesis development, we argue that reputational concerns can be a reason why returnee directors constrain their firms' tax avoidance. In this subsection, we conduct a cross-sectional test using the variation in tax enforcement. Existing studies show that strict legal enforcement of the tax system could help prevent earnings management, mitigate the agency problem, and improve financing capacity ([Hanlon et al., 2014](#)). One might also expect that for firms located in strict legal enforcement areas, aggressive tax behavior is more likely to be discovered and punished, which increases the cost of tax avoidance. Thus, it is reasonable to argue that strict legal enforcement of tax systems can increase the likelihood of detecting aggressive tax avoidance and heighten directors' reputational concerns.<sup>17</sup> In this case, we expect that the negative association between returnee directors and tax avoidance is more

<sup>17</sup> Note that reputational concerns are hard to measure using archival data, so we use the variation of tax enforcement to run this cross-sectional test.



**Table 8**  
Alternative measures of tax avoidance.

	METR1		METR2		DDBTD	
	(1)	(2)	(3)	(4)	(5)	(6)
FOR_DUM	0.035*** (3.057)		0.035*** (3.133)		-0.001 (-1.489)	
FOR_PER		0.131*** (2.775)		0.128*** (2.823)		-0.006** (-1.971)
ROA	-3.653*** (-18.499)	-3.652*** (-18.477)	-3.517*** (-18.649)	-3.516*** (-18.623)	0.256*** (13.506)	0.263*** (13.799)
SIZE	-0.002 (-0.229)	-0.002 (-0.234)	-0.002 (-0.310)	-0.002 (-0.314)	-0.002*** (-3.452)	-0.002*** (-3.246)
LEV	-0.036 (-0.843)	-0.036 (-0.833)	-0.053 (-1.290)	-0.053 (-1.280)	0.011*** (3.662)	0.012*** (3.742)
MB	0.005* (1.694)	0.005* (1.711)	0.005** (2.001)	0.005** (2.021)	-0.001*** (-3.161)	-0.001*** (-3.463)
ROI	-3.911*** (-11.437)	-3.907*** (-11.436)	-3.901*** (-11.609)	-3.897*** (-11.601)	0.370*** (11.021)	0.372*** (11.138)
PPE	-0.202*** (-4.878)	-0.205*** (-4.944)	-0.178*** (-4.366)	-0.181*** (-4.434)	0.021*** (8.652)	0.021*** (8.625)
INTANG	0.212* (1.698)	0.210* (1.675)	0.202 (1.609)	0.199 (1.586)	-0.003 (-0.479)	-0.001 (-0.185)
INVENT	0.277*** (3.954)	0.277*** (3.948)	0.293*** (4.175)	0.293*** (4.171)	-0.018*** (-5.046)	-0.018*** (-4.844)
CFO	0.215*** (4.343)	0.215*** (4.331)	0.195*** (4.093)	0.194*** (4.079)	-0.006 (-0.865)	-0.006 (-0.874)
DONATION	2.521*** (5.003)	2.533*** (5.022)	2.177*** (5.157)	2.189*** (5.180)	-0.030*** (-3.393)	-0.022*** (-2.695)
Constant	1.329*** (8.501)	1.335*** (8.510)	1.340*** (8.795)	1.345*** (8.805)	0.015* (1.675)	0.015 (1.527)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.106	0.106	0.103	0.103	0.095	0.096

This table reports the result of alternative measures of tax avoidance. First, we use *METR1* and *METR2* as proxies for tax avoidance following [Tang et al. \(2017\)](#). *METR1* in columns (1) and (2) equals *ETR1* divided by statutory tax rate, where *ETR1* = firm *i*'s total income tax expense/income before taxes. *METR2* in columns (3) and (4) equals *ETR2* divided by statutory tax rate, where *ETR2* = (income tax expense - deferred tax expense)/(income before taxes - deferred tax expense/statutory income tax rate). A high *METR1* or *METR2* implies a low level of tax avoidance. Second, we use *DDBTD* to measure abnormal book-tax differences, following [Desai and Dharmapala \(2006, 2009\)](#). *DDBTD* is the residual part of regressing total book-tax difference (*BT*) on total accruals (*TA*). *TA* is net income minus cash flows from operations divided by total assets. A low *DDBTD* implies a low level of tax avoidance. The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

pronounced when tax enforcement is stricter.

To empirically test this prediction, we construct the measure of regional tax enforcement as the ratio of provincial actual tax revenue to its expected tax revenue ([Mertens, 2003; Xu et al., 2011](#)). A larger ratio means the intensity of regional tax enforcement and supervision is greater. Expected provincial tax revenue is estimated according to the model (4) below.

$$\frac{T_{i,t}}{GDP_{i,t}} = \beta_0 + \beta_1 \frac{IND1_{i,t}}{GDP_{i,t}} + \beta_2 \frac{IND2_{i,t}}{GDP_{i,t}} + \beta_3 \frac{OPENNESS_{i,t}}{GDP_{i,t}} + \varepsilon \quad (4)$$

where  $T_{i,t}$  represents the total regional tax revenue at the end of the year. *IND1* and *IND2* represent the output value of the primary and secondary industries at the end of the year, respectively. *OPENNESS* is the total regional import and export volume at the end of the year. We bring the data from each province into model (3), estimate the coefficients, and calculate the expected (predicted) tax revenue as Predict ( $T_{i,t}/GDP_{i,t}$ ). We then compute regional tax enforcement as the actual tax revenue ( $T_{i,t}/GDP_{i,t}$ ) divided by Predict ( $T_{i,t}/GDP_{i,t}$ ). A higher number means stronger and stricter tax enforcement.

We partition the whole sample into two sub-groups based on the median value of regional tax enforcement and re-estimate the regression models on them separately. The results are reported in [Table 9](#). Columns (1)–(6) illustrate the results for the sub-sample of firms with weaker regional tax enforcement, while columns (7)–(12) shows the results for firms with stronger regional tax enforcement. We find that the coefficients on *FOR\_DUM* and *FOR\_PER* are only negatively significant in the stricter regional tax enforcement subgroup. Therefore, the results are consistent with our prediction, suggesting that reputational concerns can moderate the association between returnee directors and tax avoidance.

**Table 9**  
The effect of regional tax enforcement.

	TE ≥ Median											
	TE < Median					TE ≥ Median						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	TAXAVOID1	TAXAVOID2	BTD	TAXAVOID1	TAXAVOID2	BTD	TAXAVOID1	TAXAVOID2	BTD	TAXAVOID1	TAXAVOID2	BTD
FOR_DUM	-0.002 (-0.550)	-0.013 (-1.140)	-0.002 (-0.774)	-0.014 (-1.322)	-0.000 (-0.145)	-0.002 (-0.616)	-0.011*** (-3.579)	-0.037*** (-2.609)	-0.010*** (-3.392)	-0.033** (-2.443)	-0.002** (-2.381)	-0.013*** (-2.637)
FOR_PER	0.639*** (12.435)	0.639*** (12.430)	0.621*** (12.560)	0.621*** (12.550)	0.202*** (8.711)	0.202*** (8.710)	0.725*** (13.693)	0.725*** (13.687)	0.701*** (13.493)	0.701*** (13.489)	0.229*** (10.709)	0.230*** (10.814)
ROA	0.001 (0.675)	0.001 (0.760)	0.001 (0.624)	0.001 (0.708)	-0.000 (2.235)	-0.000 (2.205)	-0.002 (0.505)	-0.002 (0.499)	-0.002 (0.996)	-0.002 (0.988)	-0.002 (3.477)	-0.001** (3.442)
SIZE	0.029** (2.479)	0.028** (2.443)	0.030*** (2.626)	0.030*** (2.591)	0.009** (2.235)	0.009** (2.205)	0.006 (0.505)	0.006 (0.499)	0.012 (0.996)	0.011 (0.988)	0.012*** (3.477)	0.012*** (3.442)
LEV	-0.001 (-1.491)	-0.001 (-1.467)	-0.001 (-1.545)	-0.001 (-1.526)	-0.000 (-0.957)	-0.000 (-0.931)	-0.001* (-1.650)	-0.001* (-1.678)	-0.001* (-1.838)	-0.002* (-1.866)	-0.001** (-2.477)	-0.001** (-2.468)
MB	0.818*** (8.173)	0.817*** (8.172)	0.795*** (8.079)	0.794*** (8.076)	0.272*** (5.024)	0.272*** (5.020)	0.871*** (7.919)	0.870*** (7.890)	0.887*** (8.091)	0.886*** (8.058)	0.320*** (6.463)	0.320*** (6.469)
ROI	0.040*** (3.440)	0.040*** (3.433)	0.036*** (3.135)	0.036*** (3.134)	0.018*** (4.989)	0.018*** (4.969)	0.031*** (2.607)	0.032*** (2.683)	0.027** (2.329)	0.028** (2.403)	0.012*** (4.170)	0.012*** (4.201)
PPE	0.022 (0.607)	0.022 (0.618)	0.034 (0.959)	0.035 (0.973)	0.008 (0.732)	0.008 (0.739)	-0.083** (-2.227)	-0.083** (-2.233)	-0.094** (-2.479)	-0.094** (-2.485)	-0.011 (-1.272)	-0.011 (-1.286)
INTANG	-0.060*** (-3.289)	-0.060*** (-3.305)	-0.064*** (-3.536)	-0.065*** (-3.555)	-0.015*** (-3.095)	-0.015*** (-3.109)	-0.064*** (-3.600)	-0.063*** (-3.553)	-0.065*** (-3.652)	-0.064*** (-3.612)	-0.013*** (-2.925)	-0.013*** (-2.911)
INVENT	-0.031** (-2.204)	-0.031** (-2.199)	-0.023* (-1.648)	-0.023 (-1.642)	-0.017*** (-2.932)	-0.017*** (-2.930)	-0.052*** (-3.867)	-0.052*** (-3.861)	-0.054*** (-4.146)	-0.054*** (-4.139)	-0.016*** (-3.384)	-0.016*** (-3.367)
CFO	-0.610*** (-4.043)	-0.610*** (-4.048)	-0.563*** (-4.498)	-0.563*** (-4.498)	-0.017 (-1.426)	-0.016 (-1.415)	-0.397*** (-4.009)	-0.402*** (-4.059)	-0.340*** (-3.204)	-0.344*** (-3.251)	-0.026** (-2.511)	-0.027** (-2.574)
DONATION	-0.098** (-2.543)	-0.101*** (-2.601)	-0.097** (-2.540)	-0.100*** (-2.602)	-0.016 (-1.150)	-0.017 (-1.192)	0.008 (0.157)	0.010 (0.194)	0.006 (0.126)	0.008 (0.163)	0.022 (1.467)	0.021 (1.417)
Constant	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	9957	9957	9957	9957	9957	9957	9957	9957	9957	9957	9957	9957
Observations	0.115	0.115	0.113	0.113	0.104	0.104	0.118	0.117	0.117	0.116	0.121	0.123
Adjusted R <sup>2</sup>												

This table presents the subgroup analyses by testing the effect of regional tax enforcement on the relationship between directors' foreign experience and corporate tax avoidance. We separate the breakpoint according to the median value of regional tax enforcement level (TE). We construct the measure of regional tax enforcement as the ratio of the provincial actual tax revenue to their expected tax revenue (Mertens, 2003; Xu et al., 2011). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

## 5.2. Corporate social responsibility (CSR)

Previous studies find that CSR is negatively related with tax avoidance (Hoi et al., 2013; Lanis and Richardson, 2015). We argue that directors with foreign experience can reduce corporate tax avoidance by promoting CSR. We try to provide some evidence by using the following OLS model:

$$CSR_{i,t} = \alpha_0 + \alpha_1 FOREIGN_{i,t} + \alpha_2 SIZE_{i,t} + \alpha_3 ROA_{i,t} + \alpha_4 MB_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 CFO_{i,t} + \alpha_7 SOE_{i,t} + \alpha_8 BIND_{i,t} + \alpha_9 DUALITY_{i,t} + \alpha_{10} MANO_{i,t} + Industry\ FE + Year\ FE + \varepsilon \quad (5)$$

In this model, we regress CSR performance on *FOREIGN* and a vector of control variables. Following previous literature (e.g., Gong et al., 2018; Jin et al., 2017; Kao et al., 2018; Lau et al., 2016; Wang and Li, 2016; Zhang and Guo, 2018), we construct three proxies for CSR performance. The first measure (*DONATION*) is a firm's annual donation divided by its net income. The second measure (*HX\_INDEX*) is a comprehensive CSR evaluation index released by Hexun.com, where a higher value indicates better CSR performance. The third measure, *RKS\_INDEX*, is the CSR evaluation score issued by Rankins, a third-party rating agency for CSR in China. We obtained corporate annual donation data from the CSMAR database and Hexun and Rankins indexes from Hexun.com and the Rankins database, respectively.<sup>18</sup>

We estimate model (5) and report the regression result in Table 10. The independent variables are the same as those in previous tables (*FOR\_DUM* and *FOR\_PER*). In five out of six columns, the coefficients on *FOR\_DUM* and *FOR\_PER* are significantly positive, suggesting that directors with foreign experience have positive impacts on firms' CSR performance. Thus, the evidence suggests that CSR is one channel through which directors' foreign experience can help their firms reduce corporate tax avoidance.

## 5.3. The effect of investor protection in host countries/regions

The legal environment has an essential role in affecting managers' behaviors. Ball et al. (2003) examine accounting practices in four East Asian countries and conclude that, besides accounting standards, managers' incentives are influenced by underlying economic and political factors, including legal regulations. Tax law is one of the most widespread regulation systems in our daily life regardless of enterprises or individuals. As directors with experience in developed economies with strong investor protections are usually well trained, they are more likely to monitor their firms to obey tax regulations upon returning to developing economies. Following Du et al. (2017), we define two variables to measure the investor protection levels of returnee directors' host countries. The first, *FOR\_HIP*, is a dummy variable, which equals one if a firm hires at least one returnee director who obtained foreign experience from countries/regions with investor protection indexes higher than China's in firm *i* at year *t*, and otherwise zero. The second one, *FOR\_LIP*, is another dummy variable, which equals one if a firm has at least one returnee director who obtained foreign experience from countries/regions with investor protection indexes lower than China's in firm *i* at year *t*, and otherwise zero.<sup>19</sup> Since strong investor protection is also related to other country-level variables, we include country-level economic development and economic growth as control variables in this analysis. *LNGDP* is the proxy for country-level economic development, measured as the logarithm of annual GDP amount (in the US dollar) of the countries or regions where returnee directors obtained their foreign experience. *GDPGROWTH* is the growth rate of host countries' or regions' GDPs from year *t*-1 to year *t*.<sup>20</sup>

Table 11 presents the result of the test. The coefficients on *FOR\_HIP* in columns (1), (3), and (5) are all negative and significant, while the coefficients on *FOR\_LIP* in columns (2), (4), and (6) are not statistically significant. Thus, our findings are consistent with the notion that directors who obtained foreign experience in strong investor protection countries are more likely to constrain their firms' tax avoidance.

## 5.4. Independent vs. non-independent returnee directors

In this subsection, we continue to explore whether the impact of independent or non-independent returnee directors varies in shaping their firms' tax avoidance. A stream of literature shows that director independence is one important corporate governance, and outside directors are better at monitoring managers (Weisbach, 1988; Dahya et al., 2002). On the other hand, Fama and Jensen (1983) theorize that insider directors are the most influential board members due to their valuable firm-specific knowledge. In the Chinese context, the governance role of independent directors has not been well established. Jiang and Kim (2015) point out in their review paper that many Chinese firms simply keep their board independence ratio at the minimum threshold (one-third) in order to

<sup>18</sup> Note that the number of observations significantly reduces using the Hexun and Rankins CSR indexes. The reason is that Hexun.com and Rankins started to release CSR indexes in 2010 and 2009, respectively. In addition, Rankins constructs CSR disclosure scores solely based on companies' stand-alone CSR reports. Thus, if a firm does not disclose a stand-alone CSR report, the firm does not have a Rankins CSR score.

<sup>19</sup> The investor protection index and country-level GDP data are retrieved from the World Bank, available at <http://www.doingbusiness.org/data>

<sup>20</sup> If a firm has multiple directors with foreign experience, we use the average *LNGDP* and *GDPGROWTH* of these directors. If a returnee director has obtained foreign experience from multiple countries/regions, we calculate the average *LNGDP* and *GDPGROWTH* of these countries/regions. If a firm does not hire a returnee director, we use the GDP and GDP growth rate of China as the control variable. For robustness, we also calculate the maximum value of *LNGDP* and *GDPGROWTH* if a returnee director has multiple backgrounds, as well as if a firm has multiple returnee directors, and the result still holds. In addition, we remain only the firms hiring returnee directors and still find that directors who obtained foreign experience in strong investor protection countries are more likely to constrain their firms' tax avoidance. These results are available upon request.

**Table 10**  
Directors with foreign experience and corporate social responsibility.

	<i>DONATION</i>		<i>HX_INDEX</i>		<i>RKS_INDEX</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_DUM</i>	0.002*** (3.408)		0.429 (0.898)		2.713*** (3.583)	
<i>FOR_PER</i>		0.004** (2.191)		4.807** (2.322)		12.224*** (3.173)
<i>SIZE</i>	-0.000 (-0.139)	0.000 (0.076)	7.170*** (25.523)	7.099*** (25.337)	4.548*** (8.594)	4.427*** (8.657)
<i>ROA</i>	-0.088*** (-10.840)	-0.088*** (-10.829)	95.736*** (14.791)	95.370*** (14.804)	-15.087 (-1.484)	-15.208 (-1.506)
<i>MB</i>	0.000 (0.204)	0.000 (0.343)	0.363*** (4.608)	0.353*** (4.479)	0.393** (2.195)	0.383** (2.115)
<i>LEV</i>	-0.001 (-0.450)	-0.001 (-0.496)	-11.600*** (-7.715)	-11.415*** (-7.571)	-8.229*** (-2.765)	-7.839*** (-2.677)
<i>CFO</i>	0.003** (2.007)	0.003** (1.978)	-0.439 (-0.229)	-0.491 (-0.256)	3.776 (1.031)	3.500 (0.958)
<i>SOE</i>	-0.002*** (-3.459)	-0.002*** (-3.548)	2.933*** (4.345)	3.026*** (4.475)	0.918 (0.958)	0.843 (0.896)
<i>BIND</i>	0.003 (1.349)	0.003 (1.380)	3.383 (0.799)	2.829 (0.668)	-6.821 (-1.046)	-8.223 (-1.243)
<i>DUALITY</i>	-0.001 (-1.318)	-0.001 (-1.292)	-0.527 (-0.916)	-0.545 (-0.948)	-0.210 (-0.243)	-0.224 (-0.264)
<i>MANO</i>	0.003* (1.704)	0.003* (1.758)	0.073 (0.058)	0.179 (0.142)	6.874*** (2.608)	6.908*** (2.607)
Constant	0.007 (1.439)	0.006 (1.241)	-133.893*** (-20.633)	-132.357*** (-20.373)	-68.281*** (-6.017)	-64.527*** (-5.869)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,323	19,323	11,742	11,742	2476	2476
Adjusted R <sup>2</sup>	0.03	0.03	0.29	0.29	0.27	0.27

This table presents the impact of directors' foreign experience on corporate tax avoidance through possible channels—corporate social responsibility. We report the regression results on the relationship between directors' foreign experience and corporate social responsibility. We construct three different proxies for corporate social responsibility, including firms' annual donation divided by its net income (*DONATION*), comprehensive CSR evaluation index released by [Hexun.com](http://Hexun.com) (*HX\_INDEX*) and the CSR evaluation score issued by Rankins, a third-party rating agency for CSR in China (*RKS\_INDEX*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

meet the requirement of the China Securities Regulatory Commission (CSRC),<sup>21</sup> which makes the variation economically meaningless. Therefore, studies related to the effect of independent directors on governance and firm performance have mixed results (Wang, 2014; Liu et al., 2015). For our research interest, we re-run our main analysis by separating returnee directors into independent vs. non-independent subgroups (denoted as *FOR\_IND* vs. *FOR\_NONIND*). If firm *i* hires at least one independent (non-independent) director with foreign experience in year *t*, *FOR\_IND* (*FOR\_NONIND*) equals one, otherwise zero. Table 12 displays the results of this test. We find that the negative relationship between returnee directors and tax avoidance only exists in the non-independent subgroup (columns (2), (4), and (6)). The evidence suggests that insider (non-independent) directors with foreign experience play a more significant role in firms' tax planning and strategy.

### 5.5. Directors with foreign experience on audit committees

In previous sections, we find that directors with foreign experience have a significant impact on tax avoidance, and this effect is more pronounced for non-independent directors. In this subsection, we further test whether directors with foreign experience sitting on audit committees have a more significant effect on tax avoidance. Previous literature shows evidence that audit committee is an important mechanism for detecting earnings management (Xie et al., 2003), reducing the occurrence of restatements (Abbott et al., 2004), and reducing the likelihood of fraudulent or misleading reporting (Abbott et al., 2000). However, previous literature provided mixed evidence on the role of audit committee members in corporate tax avoidance. For instance, Hsu et al. (2018) documents that the role of audit committee members with financial expertise in corporate tax planning depends on firms' business strategies. Audit committee directors encourage firms to engage in more tax avoidance activities in highly risk-averse firms, while they advise risk-seeking firms to cut down tax avoidance. Robinson et al. (2012) find that accounting experts on audit committees serve both advising

<sup>21</sup> Since June 2003, the CSRC has required Chinese listed companies to hire boards consisting of at least one-third independent directors. Clarke (2006) contends that independent directors are only hired to meet the government's regulations.

**Table 11**  
The effect of investor protection in host countries/regions.

	TAXAVOID1		TAXAVOID2		BTD	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_HIP</i>	-0.005** (-2.076)		-0.005** (-2.194)		-0.001* (-1.699)	
<i>FOR_LIP</i>		-0.010 (-1.203)		-0.008 (-0.971)		0.002 (0.687)
<i>ROA</i>	0.678*** (17.477)	0.675*** (17.408)	0.658*** (17.449)	0.655*** (17.379)	0.213*** (12.989)	0.212*** (12.969)
<i>SIZE</i>	0.000 (0.114)	-0.000 (-0.060)	0.000 (0.157)	-0.000 (-0.031)	-0.001 (-1.385)	-0.001 (-1.542)
<i>LEV</i>	0.015* (1.751)	0.016* (1.836)	0.018** (2.192)	0.019** (2.278)	0.010*** (3.654)	0.010*** (3.711)
<i>MB</i>	-0.001** (-2.089)	-0.001** (-2.179)	-0.001** (-2.267)	-0.001** (-2.360)	-0.000** (-2.323)	-0.000** (-2.401)
<i>ROI</i>	0.831*** (11.288)	0.832*** (11.285)	0.828*** (11.325)	0.829*** (11.318)	0.294*** (7.857)	0.294*** (7.851)
<i>PPE</i>	0.034*** (4.031)	0.035*** (4.144)	0.030*** (3.639)	0.031*** (3.751)	0.015*** (6.396)	0.015*** (6.495)
<i>INTANG</i>	-0.032 (-1.226)	-0.032 (-1.202)	-0.030 (-1.148)	-0.030 (-1.124)	-0.003 (-0.394)	-0.003 (-0.371)
<i>INVENT</i>	-0.064*** (-4.875)	-0.064*** (-4.866)	-0.067*** (-5.073)	-0.067*** (-5.059)	-0.014*** (-4.024)	-0.014*** (-3.978)
<i>CFO</i>	-0.043*** (-4.376)	-0.043*** (-4.355)	-0.040*** (-4.146)	-0.040*** (-4.124)	-0.016*** (-4.377)	-0.016*** (-4.372)
<i>DONATION</i>	-0.521*** (-5.714)	-0.525*** (-5.744)	-0.469*** (-5.723)	-0.472*** (-5.758)	-0.022*** (-2.733)	-0.023*** (-2.814)
<i>LNGDP</i>	0.001 (0.847)	0.001 (1.071)	0.001 (0.669)	0.001 (0.968)	-0.000 (-0.178)	0.000 (0.493)
<i>GDPGROWTH</i>	-0.000 (-0.189)	-0.000 (-0.485)	-0.000 (-0.252)	-0.000 (-0.611)	0.000 (1.206)	0.000 (0.660)
Constant	-0.081* (-1.893)	-0.082** (-1.963)	-0.076* (-1.844)	-0.079* (-1.946)	0.000 (0.026)	-0.003 (-0.249)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.113	0.112	0.111	0.110	0.108	0.107

This table presents the effect of investor protection in host countries/regions on the relationship between directors' foreign experience and corporate tax avoidance. The test variables, *FOR\_HIP* (*FOR\_LIP*), represent directors who achieved their foreign experience in high (low) legal protection countries. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

and monitoring functions. They increase levels of tax planning but reduce risky tax planning. We conjecture that directors with foreign experience may play a better monitoring role in tax avoidance when they also sit on audit committees.

We hand collect the data for whether returnee directors are also on audit committees. Specifically, we define two variables: (1) *FOR\_AUDIT\_PER1* is the percentage of all directors with foreign experience on firm *i*'s audit committee in year *t*, which is calculated as the number of directors with foreign experience on the audit committee divided by the total number of directors on the board. (2) *FOR\_AUDIT\_PER2* measures the percentage of non-independent directors with foreign experience on firm *i*'s audit committee in year *t*, which is the number of non-independent directors with foreign experience on the audit committee divided by the total number of non-independent directors on the board. We replace *FOR\_AUDIT\_PER1* and *FOR\_AUDIT\_PER2* with *FOR\_PER* and re-run model (1).

The results are reported in Table 13. We can see the coefficients of *FOR\_AUDIT\_PER1* and *FOR\_AUDIT\_PER2* are negatively significant, and their magnitudes are generally larger than those of *FOR\_PER* in columns (2), (4), and (6) in Table 3. The above findings suggest directors with foreign experience sitting on audit committees can have a more significant impact on tax avoidance.

### 5.6. Foreign working experience vs. studying experience

Working and pursuing educational degrees are two ways for directors to obtain their foreign experience. Following Yuan and Wen (2018) and Zhang et al. (2018), we further consider directors' foreign experience in two categories, working experience and studying experience. Specially, *FOR\_WORK* (*FOR\_STUDY*) is a dummy variable that, if firms hire at least one director with foreign working

**Table 12**  
Independent vs. non-independent directors.

	TAXAVOID1		TAXAVOID2		BTD	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_IND</i>	−0.002 (−0.671)		−0.001 (−0.483)		0.000 (0.427)	
<i>FOR_NONIND</i>		−0.008*** (−3.080)		−0.009*** (−3.325)		−0.002** (−2.366)
<i>ROA</i>	0.675*** (17.423)	0.680*** (17.493)	0.655*** (17.397)	0.660*** (17.474)	0.212*** (12.961)	0.213*** (13.005)
<i>SIZE</i>	−0.000 (−0.083)	0.000 (0.028)	−0.000 (−0.066)	0.000 (0.078)	−0.001 (−1.552)	−0.001 (−1.401)
<i>LEV</i>	0.016* (1.841)	0.015* (1.715)	0.019** (2.288)	0.018** (2.150)	0.010*** (3.722)	0.010*** (3.608)
<i>MB</i>	−0.001** (−2.168)	−0.001** (−2.119)	−0.001** (−2.357)	−0.001** (−2.296)	−0.000** (−2.401)	−0.000** (−2.327)
<i>ROI</i>	0.832*** (11.301)	0.830*** (11.257)	0.829*** (11.333)	0.827*** (11.285)	0.294*** (7.847)	0.293*** (7.848)
<i>PPE</i>	0.035*** (4.122)	0.035*** (4.082)	0.031*** (3.742)	0.031*** (3.686)	0.015*** (6.502)	0.015*** (6.397)
<i>INTANG</i>	−0.032 (−1.216)	−0.033 (−1.260)	−0.030 (−1.136)	−0.031 (−1.181)	−0.003 (−0.372)	−0.003 (−0.414)
<i>INVENT</i>	−0.064*** (−4.839)	−0.064*** (−4.862)	−0.066*** (−5.034)	−0.067*** (−5.062)	−0.014*** (−3.986)	−0.014*** (−4.027)
<i>CFO</i>	−0.043*** (−4.390)	−0.043*** (−4.382)	−0.040*** (−4.158)	−0.040*** (−4.149)	−0.016*** (−4.366)	−0.016*** (−4.362)
<i>DONATION</i>	−0.524*** (−5.749)	−0.521*** (−5.703)	−0.472*** (−5.767)	−0.469*** (−5.707)	−0.023*** (−2.826)	−0.022*** (−2.726)
Constant	−0.054* (−1.709)	−0.055* (−1.765)	−0.054* (−1.758)	−0.056* (−1.839)	0.000 (0.036)	−0.001 (−0.064)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.112	0.113	0.110	0.111	0.108	0.108

This table shows the impact of different director types—*independent vs. independent*, on the relationship between directors' foreign experience and corporate tax avoidance. The test variables, *FOR\_IND* and *FOR\_NONIND*, represent independent directors with foreign experience and non-independent directors with foreign experience. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The definitions of variables are presented in the Appendix. *t*-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

(studying) experience in firm *i* at year *t* equals one, otherwise zero. Table 14 presents the results of the test. The coefficients on *FOR\_WORK* in columns (1), (3), and (5) are negatively significant at the 10% level, and those of *FOR\_STUDY* in columns (2) and (4) are negatively significant at the 5% level. Overall, the results indicate that both directors' working and studying experience have important impacts on corporate tax avoidance.

### 5.7. The effect of state ownership

China's institutional environment makes tax decisions significantly different between private firms and state-owned enterprises (SOEs). Divergence of enterprise positions and responsibilities between SOEs and private firms leads to different motivations of tax planning activities (Xia et al., 2017; Xu et al., 2014). Prior studies provide two possible reasons to explain why the government encourages SOEs to pay high taxes (Zhang et al., 2012; Bradshaw et al., 2019). First, the government's goal is not to maximize the value of SOEs but to maximize social welfare. It is possible that higher tax payments are necessary for the government to achieve certain social objects. Bradshaw et al. (2019) examine publicly traded firms in China and find significantly lower tax avoidance by SOEs relative to non-SOEs. Second, the assignment of top executives in SOEs in China is controlled by the state, and most of them have bureaucratic titles (Li, 1998). Due to the government officials' limited tenure, executives face ongoing evaluations for political promotions, which provide further incentives for these officials to optimize their performance in economic development and social development within their limited tenure for future promotions. Bradshaw et al. (2019) use the level of tax avoidance as an explanatory variable for SOE manager promotions and find that more SOE income taxes help SOE managers to realize promotions to higher level managerial or bureaucratic positions.

**Table 13**  
Directors with foreign experience on audit committees.

	TAXAVOID1		TAXAVOID2		BTD	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_AUDIT_PER1</i>	-0.027** (-2.317)		-0.022* (-1.947)		-0.011** (-2.503)	
<i>FOR_AUDIT_PER2</i>		-0.046*** (-2.645)		-0.034** (-2.171)		-0.011** (-2.008)
ROA	0.693*** (24.566)	0.694*** (24.656)	0.672*** (24.637)	0.673*** (24.726)	0.213*** (15.983)	0.213*** (29.915)
SIZE	-0.002** (-2.201)	-0.002** (-2.396)	-0.002** (-2.165)	-0.002** (-2.338)	-0.001*** (-4.530)	-0.001*** (-5.850)
LEV	0.025*** (4.260)	0.025*** (4.328)	0.028*** (4.860)	0.028*** (4.927)	0.012*** (5.800)	0.012*** (8.417)
MB	-0.001*** (-3.441)	-0.001*** (-3.477)	-0.001*** (-3.656)	-0.001*** (-3.689)	-0.001*** (-4.428)	-0.001*** (-6.559)
ROI	0.851*** (14.854)	0.850*** (14.843)	0.848*** (15.017)	0.848*** (15.008)	0.296*** (10.822)	0.296*** (21.156)
PPE	0.042*** (7.171)	0.043*** (7.241)	0.038*** (6.595)	0.039*** (6.656)	0.018*** (11.069)	0.018*** (11.247)
INTANG	-0.041** (-2.162)	-0.042** (-2.197)	-0.039** (-1.998)	-0.039** (-2.022)	-0.006 (-1.204)	-0.006 (-1.229)
INVENT	-0.061*** (-6.852)	-0.062*** (-6.920)	-0.063*** (-7.099)	-0.064*** (-7.153)	-0.014*** (-6.000)	-0.014*** (-6.720)
CFO	-0.040*** (-4.181)	-0.040*** (-4.181)	-0.037*** (-3.939)	-0.037*** (-3.942)	-0.015*** (-3.986)	-0.015*** (-5.894)
DONATION	-0.522*** (-6.046)	-0.522*** (-6.048)	-0.470*** (-6.087)	-0.470*** (-6.088)	-0.027*** (-3.576)	-0.027*** (-3.157)
Constant	-0.014 (-0.739)	-0.011 (-0.592)	-0.046* (-2.021)	-0.040 (-0.883)	0.009* (1.772)	0.011** (2.308)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.110	0.110	0.108	0.108	0.101	0.101

This table shows the impact of returnee directors who sit on audit committees and corporate tax avoidance. The test variables are *FOR\_AUDIT\_PER1* and *FOR\_AUDIT\_PER2*. *FOR\_AUDIT\_PER1* is the percentage of all directors with foreign experience on firm *i*'s audit committee in year *t*, which is calculated as the number of directors with foreign experience on the audit committee divided by the total number of directors on the board. (2) *FOR\_AUDIT\_PER2* measures the percentage of non-independent directors with foreign experience on firm *i*'s audit committee in year *t*, which is the number of non-independent directors with foreign experience on the audit committee divided by the total number of non-independent directors on the board. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The definitions of variables are presented in the Appendix. *t*-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

In contrast, from the perspective of private firms, their main intention is to maximize their shareholders' wealth. The main evaluation standard of executives in private firms is usually based on performance proxies such as net income, earnings per share, etc. To pursue higher profits, managers are more likely to engage in aggressive tax planning. According to previous evidence, we conjecture that the effect of returnee directors on tax avoidance might be less sensitive in SOEs compared to private firms.

To investigate this possibility, we divide our sample into two sub-groups based on firms' property rights. If a firm is ultimately controlled by the government, it is state owned (i.e., SOE). Otherwise, it is non-SOE. We run a regression model on the two subgroups and report the results in Table 15. For SOEs, the coefficients on *FOR\_DUM* and *FOR\_PER* in columns (1) to (6) are negative but insignificant. For non-SOEs, however, the coefficients on *FOR\_DUM* and *FOR\_PER* in columns (7) to (12) are negative and significant at the 1% or 5% level. Thus, the results suggest that the effect of directors' foreign experience on corporate tax avoidance is more pronounced in private firms compared with state-owned entities, consistent with our prediction.

## 6. Conclusion

This study investigates the role of directors with foreign experience on firms' tax avoidance. Using a large amount of hand-collected directors' foreign experience data over the period 2001–2016 in China, we find that the directors with foreign experience are negatively associated with tax avoidance. The magnitude is significant both statistically and economically. The result holds after

**Table 14**  
Directors foreign working experience vs. studying experience.

	TAXAVOID1		TAXAVOID2		BTD	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>FOR_WORK</i>	-0.005*		-0.005*		-0.002*	
	(-1.734)		(-1.741)		(-1.843)	
<i>FOR_STUDY</i>		-0.005**		-0.005**		-0.000
		(-2.196)		(-2.297)		(-0.128)
<i>ROA</i>	0.676***	0.677***	0.656***	0.656***	0.212***	0.287***
	(17.429)	(17.465)	(17.401)	(17.437)	(12.969)	(12.781)
<i>SIZE</i>	0.000	0.000	0.000	0.000	-0.001	-0.002**
	(0.058)	(0.044)	(0.093)	(0.090)	(-1.309)	(-2.474)
<i>LEV</i>	0.015*	0.015*	0.019**	0.019**	0.010***	0.012***
	(1.783)	(1.781)	(2.227)	(2.220)	(3.639)	(3.297)
<i>MB</i>	-0.001**	-0.001**	-0.001**	-0.001**	-0.000**	-0.001***
	(-2.115)	(-2.105)	(-2.298)	(-2.283)	(-2.309)	(-3.046)
<i>ROI</i>	0.833***	0.831***	0.830***	0.828***	0.294***	0.365***
	(11.318)	(11.290)	(11.347)	(11.323)	(7.868)	(8.102)
<i>PPE</i>	0.035***	0.035***	0.031***	0.031***	0.015***	0.021***
	(4.119)	(4.075)	(3.730)	(3.683)	(6.423)	(6.485)
<i>INTANG</i>	-0.031	-0.032	-0.030	-0.030	-0.002	-0.002
	(-1.196)	(-1.227)	(-1.117)	(-1.147)	(-0.349)	(-0.223)
<i>INVENT</i>	-0.064***	-0.064***	-0.067***	-0.067***	-0.014***	-0.018***
	(-4.863)	(-4.858)	(-5.060)	(-5.057)	(-4.047)	(-3.778)
<i>CFO</i>	-0.043***	-0.043***	-0.040***	-0.040***	-0.016***	-0.025***
	(-4.354)	(-4.400)	(-4.123)	(-4.170)	(-4.333)	(-3.350)
<i>DONATION</i>	-0.524***	-0.522***	-0.471***	-0.470***	-0.023***	-0.023**
	(-5.732)	(-5.735)	(-5.746)	(-5.750)	(-2.781)	(-2.336)
Constant	-0.058*	-0.056*	-0.058*	-0.057*	-0.002	0.016
	(-1.834)	(-1.788)	(-1.898)	(-1.859)	(-0.173)	(1.129)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Observations	19,914	19,914	19,914	19,914	19,914	19,914
Adjusted R <sup>2</sup>	0.112	0.112	0.110	0.111	0.108	0.098

This table reports the results the impact of foreign working experience and foreign studying experience on corporate tax avoidance. The test variable is directors' foreign working experience dummy variable (*FOR\_WORK*) and the directors' studying experience dummy variable (*FOR\_STUDY*). The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTD*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

controlling for potential endogeneity and possible omitted variable issues and in a change analysis. Further analysis reveals that the effect is more pronounced in regions with stricter tax enforcement environments. We also find that returnee directors promote firms' CSR performance. These results suggest that reputational concerns and CSR awareness might be potential channels through which directors with foreign experience affect firms' tax avoidance. Moreover, the effect of directors with foreign experience on corporate tax avoidance is stronger for directors who obtained their experience in countries/regions with higher investor protections. Directors with foreign experience can make more significant impacts on tax avoidance when they sit on audit committees. Both foreign working and studying experience have positive impacts on tax avoidance. Foreign non-independent returnee directors have stronger impacts on corporate tax avoidance compared with foreign independent directors, which is inconsistent with the notion that insider directors are more influential in shaping firms' policies in the Chinese context. Finally, the usefulness of directors with foreign experience is more pronounced in private companies compared with state-owned enterprises.

This study extends the prior literature by adding new evidence that director heterogeneity indeed matters for corporate decision-making such as tax avoidance. Our paper also contributes to the growing body of research examining the economic consequences of executives' foreign experience. Our findings are beneficial to firms that are interested in attracting overseas talents by showing that directors with foreign experience could help firms mitigate aggressive tax avoidance. From the government perspective, realizing that directors with foreign experience can effectively help smooth tax law execution, the government could put more effort into promoting its talent-attracting policies.



**Table 15**

The effect of state ownership.

	SOE						Non-SOE								
	TAXAVOID1			TAXAVOID2			TAXAVOID1			TAXAVOID2			BTID		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)			
<i>FOR_DUM</i>	-0.005 (-1.408)		-0.005 (-1.531)	-0.022 (-1.507)	-0.001 (-0.756)	-0.006 (-1.176)	-0.008** (-2.948)	-0.029*** (-2.612)	-0.008*** (-2.871)	-0.027** (-2.471)	-0.001** (-2.164)	-0.009** (-2.012)			
<i>FOR_PER</i>		-0.020 (-1.339)													
<i>ROA</i>	0.730*** (12.026)	0.731*** (12.040)	0.722*** (12.229)	0.722*** (12.244)	0.191*** (7.672)	0.191*** (7.674)	0.634*** (12.850)	0.633*** (12.820)	0.607*** (12.680)	0.606*** (12.645)	0.226*** (11.893)	0.226*** (10.817)			
<i>SIZE</i>	-0.000 (-0.122)	-0.000 (-0.083)	-0.000 (-0.186)	-0.000 (-0.130)	-0.000 (-0.362)	-0.000 (-0.228)	0.000 (0.130)	0.000 (0.073)	0.000 (0.160)	0.000 (0.101)	-0.001* (-1.763)	-0.001 (-1.331)			
<i>LEV</i>	0.015 (1.197)	0.015 (1.172)	0.022* (1.801)	0.022* (1.766)	0.009** (2.420)	0.009** (2.361)	0.015 (1.296)	0.015 (1.317)	0.016 (1.358)	0.016 (1.379)	0.009** (2.506)	0.009** (2.229)			
<i>MB</i>	-0.001 (-1.239)	-0.001 (-1.247)	-0.001 (-1.600)	-0.001 (-1.606)	-0.000* (-1.654)	-0.000* (-1.613)	-0.001 (-1.608)	-0.001 (-1.622)	-0.001 (-1.551)	-0.001 (-1.565)	-0.000 (-1.640)	-0.000 (-1.436)			
<i>ROI</i>	1.036*** (10.164)	1.037*** (10.172)	1.015*** (10.017)	1.015*** (10.024)	0.379*** (7.961)	0.380*** (7.979)	0.599*** (5.953)	0.596*** (5.920)	0.617*** (6.064)	0.615*** (6.027)	0.206*** (4.806)	0.205*** (3.685)			
<i>PPE</i>	0.042*** (3.443)	0.042*** (3.479)	0.037*** (3.140)	0.038*** (3.176)	0.016*** (4.826)	0.015*** (4.818)	0.035*** (3.052)	0.035*** (3.091)	0.030*** (2.743)	0.031*** (2.782)	0.018*** (6.639)	0.018*** (5.114)			
<i>INTANG</i>	-0.021 (-0.621)	-0.020 (-0.592)	-0.025 (-0.724)	-0.024 (-0.693)	0.005 (0.604)	0.005 (0.638)	-0.053 (-1.375)	-0.054 (-1.386)	-0.045 (-1.176)	-0.045 (-1.185)	-0.015** (-1.597)	-0.016 (-1.597)			
<i>INVENT</i>	-0.077*** (-3.620)	-0.076*** (-3.614)	-0.081*** (-3.860)	-0.081*** (-3.857)	-0.015*** (-3.085)	-0.015*** (-3.094)	-0.052*** (-3.343)	-0.052*** (-3.349)	-0.053*** (-3.418)	-0.053*** (-3.425)	-0.010** (-2.944)	-0.010** (-2.154)			
<i>CFO</i>	-0.057*** (-3.523)	-0.057*** (-3.528)	-0.054*** (-3.501)	-0.054*** (-3.506)	-0.024*** (-4.497)	-0.024*** (-4.500)	-0.032** (-2.574)	-0.032** (-2.546)	-0.029** (-2.319)	-0.028** (-2.293)	-0.009 (-1.636)	-0.009* (-1.760)			
<i>DONATION</i>	-0.818*** (-7.635)	-0.819*** (-7.641)	-0.722*** (-7.407)	-0.723*** (-7.421)	-0.027** (-2.224)	-0.027** (-2.220)	-0.390*** (-3.836)	-0.393*** (-3.864)	-0.357*** (-4.044)	-0.360*** (-4.076)	-0.020** (-2.226)	-0.020** (-1.984)			
Constant	-0.037 (-0.832)	-0.039 (-0.873)	-0.036 (-0.828)	-0.039 (-0.882)	0.011 (-0.818)	0.013 (-0.921)	-0.070 (-1.585)	-0.069 (-1.549)	-0.070 (-1.616)	-0.068 (-1.580)	0.007 (0.553)	0.007 (0.384)			
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES			
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES			
Observations	9456	9456	9456	9456	9456	9456	10,458	10,458	10,458	10,458	10,458	10,458			
Adjusted R <sup>2</sup>	0.139	0.139	0.134	0.134	0.132	0.133	0.100	0.100	0.100	0.100	0.102	0.103			

This table shows the difference between directors' foreign experience and corporate tax avoidance in SOE vs. Non-SOE (private) firms. The dependent variables include the difference between statutory income tax rate and effective tax rate (*TAXAVOID1* and *TAXAVOID2*) and book-tax difference (*BTID*). The test variables are directors' foreign experience (*FOR\_DUM* and *FOR\_PER*). The definitions of variables are presented in the Appendix. t-statistics in the brackets are based on standard errors adjusted for clustering at the firm level. \*, \*\*, and \*\*\* indicate significance at the 0.10, 0.05, and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

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## Appendix A. Variable definitions

Variable	Definition
Panel A: Corporate tax avoidance variables	
<i>TAXAVOID1</i>	Firm <i>i</i> 's applicable statutory income tax rate in year <i>t</i> minus the effective tax rate. The effective tax rate = firm <i>i</i> 's total income tax expense/ income before taxes
<i>TAXAVOID2</i>	Firm <i>i</i> 's applicable statutory income tax rate in year <i>t</i> minus the effective tax rate. The effective tax rate = (the income tax expense – deferred tax expense)/ (income before taxes- deferred tax expense/statutory income tax rate)
<i>BTD</i>	Book-tax difference. (Firm <i>i</i> 's income before taxes in year <i>t</i> – taxable income)/ end-of-period total assets Taxable income = (the income tax expense – deferred tax expense)/ the applicable statutory tax rate
<i>METR1</i>	Firm <i>i</i> 's effective tax rate in year <i>t</i> divided by applicable statutory tax rate. The effective tax rate = firm <i>i</i> 's total income tax expense/ income before taxes
<i>METR2</i>	Firm <i>i</i> 's effective tax rate in year <i>t</i> divided by applicable statutory tax rate. The effective tax rate = (the income tax expense – deferred tax expense)/ (income before taxes - deferred tax expense/statutory income tax rate)
<i>DDBDT</i>	Abnormal book-tax difference calculated following <a href="#">Desai and Dharmapala (2006, 2009)</a> . The residual part of regressing total book-tax difference ( <i>BTD</i> ) on total accruals ( <i>TA</i> ). <i>TA</i> is net income minus cash flows from operations divided by total assets.
Panel B: Directors' foreign experience variables	
<i>FOR_DUM</i>	Directors' foreign experience. Dummy variable equals one if firm <i>i</i> has at least one director with foreign experience in year <i>t</i> , otherwise equals zero.
<i>FOR_PER</i>	The percentage of directors with foreign experience in the board. The number of directors with foreign experience divided by the total number of board of directors
<i>FOR_HIP</i>	Directors' foreign experience from high investor protection country. Dummy variable equals one if firm <i>i</i> has at least one director who obtained his/ her foreign experience in a country/ region with higher investor protection index than China in year <i>t</i> , otherwise equals zero.
<i>FOR_LIP</i>	Directors' foreign experience from low investor protection country. Dummy variable equals one if firm <i>i</i> has at least one director who obtained his/ her foreign experience in a country/ region with lower investor protection index than China in year <i>t</i> , otherwise equals zero.
<i>FOR_IND</i>	Independent directors' foreign experience. Dummy variable equals one if firm <i>i</i> has at least one independent director with foreign experience in year <i>t</i> , otherwise equals zero.
<i>FOR_NONIND</i>	Non-independent directors' foreign experience. Dummy variable equals one if firm <i>i</i> has at least one non-independent director with foreign experience in year <i>t</i> , otherwise equals zero.
<i>FOR_AUDIT_PER1</i>	The percentage of directors with foreign experience in audit committee. The number of directors with foreign experience in audit committee divided the total number of directors in the board.
<i>FOR_AUDIT_PER2</i>	The percentage of non-independent directors with foreign experience in audit committee. The number of non-independent directors with foreign experience in audit committee divided by the total number of non-independent directors in the board.
<i>FOR_STUDY</i>	Directors' foreign studying experience. Dummy variable equals to one if firm <i>i</i> in year <i>t</i> has at least one director with foreign studying experience.
<i>FOR_WORK</i>	Directors' foreign working experience. Dummy variable equals to one if firm <i>i</i> in year <i>t</i> has at least one director with foreign working experience.
Panel C: Other variables	
<i>ROA</i>	Return on assets, equals firm <i>i</i> 's net income in year <i>t</i> divided by total assets.
<i>SIZE</i>	Firm size, equals the natural logarithm of firm <i>i</i> 's book value of total assets plus one.
<i>LEV</i>	Firm leverage, equals firm <i>i</i> 's total liabilities divided by total assets.
<i>MB</i>	Market-to-book ratio, equals firm <i>i</i> 's total market value divided by book value in year <i>t</i> .
<i>ROI</i>	Return on investment, equals firm <i>i</i> 's investment return in year <i>t</i> divided by total assets.
<i>PPE</i>	Property plant and equipment, equals firm <i>i</i> 's net value of property plant equipment divided by total assets.
<i>INTANG</i>	Intangible assets, equals firm <i>i</i> 's net value of intangible assets in year <i>t</i> divided by total assets.
<i>INVENT</i>	Inventory, equals firm <i>i</i> 's net value of inventories in year <i>t</i> divided by total assets.
<i>CFO</i>	Operating cash flow, equals the natural logarithm of firm <i>i</i> 's operating cash flows plus one.
<i>DONATION</i>	Firm <i>i</i> 's annual donation divided by its net income in year <i>t</i> .
<i>HX_INDEX</i>	CSR evaluation score released by <a href="#">Hexun.com</a> . The maximum score is 100, and a higher score represents better CSR performance.
<i>RKS_INDEX</i>	CSR evaluation score released by Rankins.
<i>LN_GDP</i>	The logarithm of annual GDP amount (in the US dollar) of the countries or regions where returnee directors obtained their foreign experience.
<i>GDPGROWTH</i>	The growth rate of host countries or regions' GDP from year <i>t</i> -1 to year <i>t</i> .
<i>TE</i>	Tax enforcement, equals the actual tax revenue in the province where firm <i>i</i> belongs to divided by the regional expected tax revenue following ( <a href="#">Mertens, 2003; Xu et al., 2011</a> ).
<i>SOE</i>	State owned entity, a dummy variable equals one if firm <i>i</i> is a state-owned entity, otherwise equals zero.
<i>DUALITY</i>	CEO simultaneously serve as chairman, a dummy variable equals one if <i>i</i> has the CEO simultaneously serve as the chairman of the board, otherwise equals zero.
<i>BSIZE</i>	Board size, the number of directors in board.
<i>MANO</i>	Managerial ownership, the shares hold by managers divided by the total number of shares.

ABACC	Abnormal accrual, calculated from modified Jones Model (Kathori et al., 2005). $TACC_{i,t} = \beta_0 + \beta_1 (1 / ASSETS_{i,t-1}) + \beta_2 (\Delta SALES_{i,t} - \Delta AR_{i,t}) + \beta_3 (PPE_{i,t}) + \beta_4 (ROA_{i,t}) + Fixed\ Effects + error$ , where <i>TACC</i> is total accruals (net income before extraordinary items less cash flows from operations in year <i>t</i> ), <i>ASSETS</i> is a client's total assets, $\Delta SALES$ is change in sales from year <i>t-1</i> to year <i>t</i> , $\Delta AR$ is change in accounts receivable from year <i>t-1</i> to year <i>t</i> , <i>PPE</i> is gross property, plant, and equipment, and <i>ROA</i> is return on assets. <i>TACC</i> , $\Delta SALES$ , $\Delta AR$ , and <i>PPE</i> are scaled by lagged total assets.
IC	Internal control, the natural logarithm of firm <i>i</i> 's internal control index in year <i>t</i> .
MA	Managerial ability score measure developed by Demerjian et al. (2012) by using DEA. The first step is to calculate firm efficiency according to the equation: $max_{\theta} \theta = Sales / (\nu_1 CoGS + \nu_2 SG\&A + \nu_3 PPE + \nu_4 OpsLease + \nu_5 R\&D + \nu_6 Goodwill + \nu_7 OtherIntan)$ , <i>CoGS</i> , <i>SG&amp;A</i> , <i>PPE</i> , <i>OpsLease</i> , <i>R&amp;D</i> , <i>Goodwill</i> , <i>OtherIntan</i> separately represent cost of goods sold, SG&A expense, PPE, operating lease, R&D, goodwill, sum of other intangible assets from annual report of year <i>t</i> . The second step is to run the tobit model by industry according to the following equation: $Firm\ Efficiency_i = \alpha_i + \beta_1 \ln(Total\ Assets)_i + \beta_2 Market\ share_i + \beta_3 Free\ Cash\ Flow\ Indicator_i + \beta_4 \ln(Age)_i + \beta_5 Business\ Segment\ Concentration_i + \beta_6 Foreign\ Currency\ Indicator_i + Year_i + \epsilon_i$ . The residual in the second regression is denoted as managerial ability. <i>Total Assets</i> is the total assets at the end of year <i>t</i> . <i>Market Share</i> is the percentage of revenues (SALE) earned by the firm in year <i>t</i> . <i>Free Cash Flow Indicator</i> is coded to one when a firm has nonnegative free cash flow in year <i>t</i> . <i>Age</i> is the number of years the firm has been listed at the end of year <i>t</i> . <i>Business Segment Concentration</i> is the ratio of individual business segment sales to total sales, summed across all business segments for year <i>t</i> . If the firm is not in the segment file, it is assigned a concentration of one. <i>Foreign Currency Indicator</i> is coded to one when a firm reports a nonzero value for foreign currency adjustment.
FOR_INDUS	The mean percentage of directors with foreign experience appointed by firms in the same industry and year, excluding the firm concerned.
BRITISH	Dummy variable equals one if firms located in the province had a concession or leased territory established by Great Britain during the late Qing dynasty, otherwise equals zero. The Great Britain established settlements in the following provinces: Fujian, Hubei, Jiangxi, Jiangsu, Guangdong, Shandong, Tianjin, and Shanghai.

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