International Journal of Service Science, Management, Engineering, and Technology
Volume 17 • Issue 1 • January-December 2026

Does Gender Diversity Mitigate the Relationship Between Tax Avoidance and Cash Holdings?

Evidence From an Emerging Market

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Received: November 9th, 2025 | **Accepted:** December 28th, 2025

ABSTRACT

This study investigates the moderating role of board gender diversity in the relationship between tax avoidance and corporate cash holdings in the Kingdom of Saudi Arabia (KSA), an emerging market in the Gulf Cooperation Council region. The analysis is based on a panel dataset of nonfinancial firms listed in KSA over the period 2020–2023. Fixed-effects regression models are employed to examine the proposed relationships, and robustness checks are conducted using alternative measures of cash holdings and lagged independent variables to mitigate endogeneity concerns. The results reveal a significant positive association between tax avoidance and corporate cash holdings, indicating that firms engaging in greater tax avoidance strategies tend to accumulate higher cash balances. Furthermore, board gender diversity is found to strengthen this relationship, suggesting that gender-diverse boards play an active role in influencing financial decision-making related to tax-driven cash retention.

KEYWORDS

Gender Diversity, Tax Avoidance, Cash Holding, KSA, GCC, Corporate Governance

INTRODUCTION

Tax avoidance (TA) practices can be traced back to ancient civilizations, such as Ancient Egypt and Ancient Greece (Cecchet, 2023; Yassin & El-desokey, 2021). Egyptians sought Alexandrian citizenship to enjoy the tax benefits available to Alexandrians during Roman Egypt (Yassin & El-desokey, 2021). This phenomenon has been widespread throughout history and across countries, coinciding with the existence of tax systems (Slemrod & Yitzhaki, 2002; Schönhärl et al., 2023). Taxation constitutes

DOI: 10.4018/IJSSMET.400761

a fundamental and often dominant source of public revenue, particularly in developing economies (Bataineh, 2025). However, in many such contexts—where governance capacities and monitoring mechanisms remain limited—tax systems are frequently distorted by structural weaknesses that ultimately undermine governments' ability to mobilize adequate tax revenues (Kadir, 2018; Koay & Sapiei, 2024). Noncompliance with tax systems also stems from a combination of interrelated factors, including insufficient understanding of tax rules, financial pressures, and low confidence in governmental institutions (Irawati et al., 2025; Purnomolastu & Nuswantara, 2025). Furthermore, ambiguities or weaknesses in the tax laws of some countries create opportunities for businesses to reduce their tax obligations (Dyreng et al., 2008; Rakia et al., 2024). Such activities may contribute to excess cash holdings (CASH) in these businesses (Fritz Foley et al., 2007), which, in turn, can be misused by management. This context enables managerial discretion and increases opportunistic behavior, exacerbating agency problems in companies (Amess et al., 2015; Jensen, 1986). TA and CASH can also contribute to information opacity and asymmetry: TA can limit information flows within firms to avoid detection by tax administrations (Balakrishnan et al., 2019), and excess CASH can be misused by corporate management to obtain private benefits at the expense of shareholders or the firm's long-term interests (Anderson et al., 2003; Jiang et al., 2024). Against this backdrop, our research aims to contribute to the literature by examining the relationship between TA and excess CASH.

Corporate governance (CG) is regarded as a custodian of sustainable business well-being and accountability (El-Feel et al., 2025; Page & Spira, 2016). Previous studies have suggested that the prevalence of TA and excess CASH, and their influence in a particular context, are anchored in the effectiveness of CG and the scrutiny of managerial policies and activities (Chen et al., 2020; Dittmar et al., 2003; Harford et al., 2008; Kanadlı et al., 2022). The representation of female directors (RFD) has recently received significant attention from researchers and regulators as a vital governance mechanism that can yield positive corporate outcomes (Almaqtari et al., 2024). Female directors have been recognized as more conservative, risk-averse, and compliant with ethical and moral standards compared to their male counterparts (Menicucci & Paolucci, 2022; Sundén & Surette, 1998). They are also better monitors of corporate activities and less tolerant of irregular reporting and managerial practices (Almaqtari et al., 2024; Jain & Zaman, 2020). Board diversity is anticipated to improve the competencies within the board and enable better oversight of the interests of different stakeholders during board discussions, rather than focusing on a particular group (Nielsen & Huse, 2010). Hence, the presence of women directors can lead to a lower inclination to engage in aggressive TA (Alshabibi et al., 2022; Hoseini & Gerayli, 2018) and excessive CASH practices (Chen et al., 2015), which can help mitigate agency problems in firms (Doan & Iskandar-Datta, 2020). Recognizing the promising role of female directors, we aim to explore the moderating effect of board gender diversity (BGD) on the link between TA and CASH in the Kingdom of Saudi Arabia (KSA), a developing context in the Gulf Cooperation Council (GCC) region.

The global labor market continues to exhibit pronounced gender disparities, with men generally having access to broader employment opportunities (Borges da Costa & Barros, 2024). Recent studies in the GCC context, including KSA, have examined the extent of RFD on boards and the financial implications of this representation (Ellili, 2024; Jizi et al., 2021). However, limited attention has been given to BGD's role in the association between TA and CASH in this context. We are motivated by the increasing significance of BGD and its potential to influence financial strategies in emerging markets such as the Saudi market, a role that was historically absent due to the region's traditional conservatism and prevalent masculinity (Hofstede, 1980; Pillai & Al-Malkawi, 2018).

Emerging economies such as KSA warrant special attention, as they represent a significant share of the global economy (Lagarde, 2016). The Saudi government has reduced its dependence on oil and achieved economic diversification, helping the country remain resilient during recent global financial and nonfinancial crises (Elshandidy et al., 2025). In addition, the Saudi government has made groundbreaking strides and implemented reforms to advance gender equality and increase

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