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Investigating the Role of Narcissistic Ceos in Tax Aggressive by Considering the Moderating Role of the Audit Committee: The Case of Iran

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Abstract: Narcissism is one of the fundamental personality traits that affects chief executive officer's (CEO) behaviour and business strategies. A key policy that has a significant impact on the interests of numerous groups, including shareholders, investors, stakeholders, and society at large, is tax avoidance. However, the supervisory components of the organization's corporate governance may work against these policies. The audit committee, a crucial part of corporate governance, can act as a check on these policies and possibly limit how they are implemented. Therefore, the primary objecitve of this study is to investigate how the narcissistic traits of the CEO affect corporate tax evasion. The efficacy of the audit committee's characteristics, such as its independence and the gender of its members, is next evaluated. Based on an unbalanced panel of 1128 firm-year observations from companies registered on the Tehran Stock Exchange for the seven-year period 2015–2021, the results show that more tax-aggressive policies are associated with narcissistic CEOs. As a result, it validates the study's initial idea.

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The audit committee's increased independence, however, can help control this mental illness. In addition, gender-diverse audit committees with female directors are more perceptive of CEO conduct, keep a closer eye on their aggressive tax plans, and curtail them. Overall, it can be said that efficient audit committees are an important and helpful supervisory tool for managing managers' tax evasion policy-related behaviour.

Keywords: CEO Narcissism, Tax Aggressive, Tax Avoidance, Audit Committee Independence, Audit Committee Gender Diversity.

1. INTRODUCTION

Personality traits of people affect decisions in many precincts. The upper echelons theory states that executives' experiences, worth, and personalities significantly affect their interpretations of the conditions they confront and, in turn, their choices (Hambrick, 2007). If a great deal of authority is present, executive traits will become reflected in policy and performance (Crossland & Hambrick, 2007; Finkelstein & Hambrick, 1990). In the last decade, researchers have widely investigated the personality characteristics of CEOs, such as optimism and executive risk-aversion, overconfidence, gender, ethics, and masculinity, and their consequences on a firm's financial outcomes (Capalbo *et al.*, 2018). In this research, we will develop this literature by examining another characteristic of CEO narcissism. Narcissism is a common personality trait investigated in previous leadership literature. Narcissism is a relatively stable individual different including grandiosity, self-admiration, inflated self-conceits (Campbell *et al.*, 2006; Morf & Rhodewalt,2001), and an intense need for prestige and power (Chatterjee & Hambrick, 2007; Oesterle *et al.*, 2016). It is beneficial to know that narcissism involves three elements: the self, interpersonal relationships, and self-regulatory strategies (Campbell *et al.*, 2011).

Examining the influence of personality characteristics on leadership and CEO performance, efficiency and effectiveness of strategic decisions, and firm results has long been the focus of scientific research in accounting and auditing. On the one hand, Some studies expressed that narcissism is positively associated with leadership (Davies, 2004; Galvin *et al.*, 2010; Harms *et al.*, 2011; Judge *et al.*, 2006), but at the same time, another set of studies have detected a negative link between narcissism and leadership (Benson & Campbell, 2007; Blair *et al.*, 2008; Khoo & Burch, 2008; Resick *et al.*, 2009; Yocum, 2006).

Some studies have shown that narcissistic CEOs bring benefits to firms such as increased innovation opportunities (Rovelli *et al.*, 2022), intensified of commercial relationships with global markets (Oesterle *et al.*, 2016), higher earnings per share and stock prices (Olsen and Stekelberg, 2016). On the other hand, narcissistic personalities may be the cause reduce R&D investment (Wang *et al.*, 2022), increased firms' vulnerability (O'Reilly *et al.*, 2018), low-quality financial information, and increased audit fees (Xiang & Song, 2021), overinvestment policies (Ham *et al.*, 2018). Since financial and accounting figures, including earnings (Lin *et al.*, 2019), are optional components of financial statements, narcissistic CEOs can influence and manipulate them (Schwartz, 1991). Some previous studies state that a high level of narcissism is effective on earnings management (Capalbo., 2018), willingness to accept the risk (Campbell *et al.*, 2004), the potential cause of fraud (Rijsenbilt & Commandeur, 2013), and auditors' overall fraud risk assessment with increased client narcissistic behavior (Johnson *et al.*, 2012).

In this study, we will investigate the effect that narcissistic CEOs may have on tax avoidance. There is no universally accepted comprehensive definition of tax avoidance or tax aggressiveness; these terms mean different things to different people. However, research in this field has not stopped and is flowing like a river. Hanlon and Heitzman (2010) consider tax avoidance as a decrease in explicit taxes. Tax avoidance can be defined as any action that reduces tax burdens and increases cash flows in the short term. This definition can be expressed as tax policies that reduce pre-tax income. Since it is difficult to isolate and identify all aspects of tax avoidance policies, the field of tax avoidance literature defines this program as a set of legal actions and other practical actions related to non-compliance or tax evasion (Dyreng *et al.*, 2010). Even though the measure of tax avoidance or aggressive tax[1] has not been used in previous research in this field as tax evasion, task risk assessment, or aggressive tax sheltering, it can be used as strategies at the legal and illegal levels to reduce the tax burden (García-Meca *et al.*, 2021).

Many previous pieces of research investigated the individual role of organizations' executives in determining the levels of tax avoidance. Some of them indicate its considerable importance. Baghdadi *et al.* (2022) found that risk-seeking had a much stronger effect on tax avoidance than other commonly studied CEO characteristics, including overconfidence and capability. However,

investigating the influence of the individual characteristics of these CEOs has often been overlooked. The performed tests show that individual executives, as persons at the head of the organization, play a role in determining firms' tax avoidance level more than CFOs[2]and other top executives (Dyring *et al.*, 2010). Tax avoidance is related to firm size, profitability, the extensiveness of a foreign operation, capital intensity, leverage (Kasim *et al.*, 2019), and international business operations (Ferris *et al.*, 2013). More recent research has considered the upshot of tax avoidance, including economic consequences. Its consequences can vary among executives, firms, and stakeholders because of agency problems, which are the focus of recent work on tax avoidance. This strategy may have risky outcomes in organization structures, such as creating managerial rent and a longer-run risk of a precipitous fall in the firm's share price (Kim *et al.*, 2011). Conversely, it may ensure the preservation of business entities' resources and remuneration for shareholders (Vacca *et al.*, 2020). Narcissistic CEOs may perform aggressive tax strategies to achieve personal benefits, such as managing accruals to show positive earnings (Capalbo *et al.*, 2018), increasing benefits (salaries, bonuses, and shares) (O'Reilly, 2021), using their discretion over financial reporting disclosures to increase the company's and their own profits (Abdol-Meguid *et al.*, 2021), or controlling others. In this respect, Hirshleifer *et al.* (2020) stated that firms with overconfident CEOs turn to increased cash flows to meet investment needs in their innovative projects.

Although firms benefit from adopting aggressive strategies, some stakeholders say that in times of uncertainty and regarding social responsibility, these policies will reduce the well-being of society as a whole (Lanis & Richardson, 2012; Sikka, 2010). Hence, in the research related to this field, there are two opposite views: whether tax avoidance policies as an influential factor that have a significant positive impact on shareholders' wealth (Neifar & Utz, 2019) and increase cash flows or whether the company is seen as socially irresponsible (Christensen & Murphy, 2004). Although previous researches have examined firm factors such as managerial ownership, return on assets, firm size(Sonia and Suparmun, 2019), and social responsibility (Liu & Lee, 2019) on tax avoidance, the examination of CEO narcissism is still minimal. Only a few articles have investigated the role of overconfidence (IIaboya & Aronmwan, 2022) and the narcissism of CEOs (Araújo *et al.*, 2020) on tax avoidance or tax sheltering (Chyz, 2013; Olsen & Stekelberg, 2016). What

appears to be scarce in the literature is that narcissistic CEOs may adjust some of the financial numbers with the motive of generating excessive revenues and profits. Accordingly, Previous researches show that tax avoidance strategies or aggressive taxes are adopted as a tool for earnings management to reduce the tax burden. Therefore, our first goal in this study is to investigate that: Do narcissistic CEOs use these strategies to achieve non-fiscal purposes, including mastery of the organization, renown, and adoration.

Previous researches seems to focus on the direct relationship between CEO narcissism and business unit results without considering the mechanisms that may be effective in this relationship (Chatterjee & Pollock, 2017; García-Meca *et al.*, 2021). Research in the field of corporate governance shows the role of the company's internal mechanisms that monitor the behavior of executives and act in the interests of shareholders. The audit committee is one of the basic mechanisms of corporate governance that helps the board of directors in making decisions to monitor the integrity of procedures and the quality of financial reporting, the effectiveness of risk management, and the firm's internal control systems (MCCG, 2016, p. 16). Tax planning (Robinson *et al.*, 2012), selection of accounting procedures and principles (FRC[3]., 2012), and accuracy of transactions and financial reports (Deloitte., 2018) are under the audit committee control. Audit committees limit the tendency of narcissistic CEOs to increase company risk by creating continuous monitoring, financial reporting transparency, and accountability to stakeholders (García-Meca *et al.*, 2021). Therefore, audit committees are inseparably linked to monitoring fundamental accounting choices and reducing discretionary behaviors, such as earnings management (Piot *et al.*, 2007), fraud (Haung *et al.*, 2010), and aggressive strategies.

Hence, in this research as the next goal, we investigate that: Can audit committees with an appropriate and high-quality structure control the aggressive behaviors of CEOs, including narcissism. We will provide evidence that larger audit committees include more independent experts, higher levels of gender diversity, and more meetings.As a result, they will perform their monitoring and overseeing roles more effectively as one of the essential corporate governance factors. We advocate the presence of female directors on audit committees that may limit the negative consequences of narcissistic CEOs involving aggressive strategies. Since this research examines the existence

of structured interaction between the narcissism of CEOs and all the audit committee characteristics on tax avoidance, it has some differences in addition to developing previous research.

We endeavour to answer the following questions somehow reasonably: To what extent do CEOs' narcissistic personality traits influence aggressive tax policies? On the other hand, is the independence of audit committee members an efficient factor in limiting the effect of narcissistic CEOs on tax aggressiveness? Also, we investigate whether the presence of women managers in audit committees can limit tax aggressiveness caused by narcissism.

The results support the following empirical evidence for two Iranian samples consisting of 854 observations based on a balanced panel and 1129 observations from an unbalanced panel from 2015 to 2021. First, CEOs' aggressive tax methods are a result of their narcissistic psychological state. On the other hand, the findings show that tax avoidance policies instigated by narcissistic CEOs can be moderated through audit committee characteristics, including independence and gender diversity. Among all the measurements used for narcissism, the results confirm that the existence of an independent audit committee will increase the monitoring of narcissistic CEOs and reduce their tax avoidance strategies. This can be due to the person's impartiality and professional commitment to perform the supervisory responsibility honestly.

In addition, the increase in the presence of female managers in audit committees reduces aggressive tax policies to their lowest level. This seems to be caused by women's tendency toward moral values, risk aversion, and being more conservative. Hence, Our findings suggest that strong corporate governance pillars can moderate tax avoidance strategies resulting from narcissistic CEOs.

Based on empirical findings, this research supports the perspective that narcissism is an individual psychological characteristic that leads CEOs to aggressive tax policies for self-prise and recognition. Hence, it helps companies in investigating the relationship between CEOs and tax strategies. This article expands on previous work done by Chatterjee and Hambrick (2007), Rijsenbilt and Commandeur (2013), Brwon (2016), Olsen and Stekelberg (2016), Ham *et al.* (2018), and García-Meca *et al.* (2021), among others, by identifying narcissism as a motive of tax aggressiveness. Secondly, this paper contributes to previous research stating that CEO power is related to governance and affects firm performance (Han *et al.*, 2016; Daily & Johnson, 1997). It is the

first article in the Asia region that examines audit committees' characteristics as moderating factors to limit tax avoidance policies caused by narcissistic managers. The obtained findings will develop the research done in this field. Third, this research supports the strong presence of audit committees within growing firms as essential pillars of corporate governance. Also, this research supports the existence of independent audit committees.

Additionally, this research supports the presence of female managers due to the lack of gender diversity on audit committees in underdeveloped countries such as Iran. According to Ittonen *et al*. (2010) and Thiruvadi and Huang (2011), examining women's role in audit committees is still fresh. Previous research on CEO narcissism has been internationally reviewed (e.g., S&P 500) and in developed European environments. Hence, with this paper, we respond to the request of researchers about less developed settings such as Iran, where the support for foreign investors is weak.

The remainder of this paper is structured as follows: In Section 2, previous research is reviewed and study hypotheses are developed. The research methodology, including the variables, the suggested regression model, and the data-gathering process, is covered in Section 3. The presentation of statistical analysis results and discussion are included in Section 4. The study's conclusions, implications , and limitations are addressed in Section 5.

2. PRIOR LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. CEOs' narcissism and tax avoidance

The term "narcissism" is commonly used to describe anyone who is self-absorbed. Crisp., (2020) says everyone has narcissistic tendencies from time to time. The American Psychiatric Association described narcissism as a pattern of traits and behaviors characterized by excessive self-concern and self-valuation. Individuals with high narcissism try to show themselves as more important and expert than others and attempt to protect themselves from criticism. Hence, narcissistic CEOs seek to show off to everyone and do not indicate a sense of cooperation and empathy. Narcissism has diverse meanings, depending on whether it describes a central concept of psychoanalytic theory, a mental illness, a social or cultural problem, or simply a personality trait (Campbell

& Foster, 2007). Based on Emmons's (1984) conceptualization, narcissism is linked to the need for the centre of attention: Leadership/Authority, being better than others: Superiority/Arrogance, excessive concern for one's position: Self-absorption/Self-admiration, well-regarded and respected: Exploitativeness/Entitlement. Reich., (1960) and Kernberg., (1970) considered the main Characteristics of narcissistic personalities to be arrogant, energetic, and often promiscuous, excessive self-absorption, intense ambition, grandiosity, and an inordinate need for tribute from others, while Kernberg., (1975), narcissistic CEOs the drive to attain power and influence.

According to the American Psychiatric Association., (1994), narcissists seek confirmation of their superiority over others, and to reaffirm this belief, they constantly require admiration. According to Hambrick and Mason (1984), based on the upper-echelon theory, the results of firms reflect the decisions and performance of their managers. This theory affirms that CEOs influence organizations through their choices (Hiebl., 2014). Chatterjee and Hambrick (2007), Brown *et al.* (2010), Nevicka *et al.* (2011), and Oesterele *et al.* (2014) showed that narcissism is a personality trait that has a significant impact on the entire decision-making process. Hambrick and Mason (1984), laid the foundations of theories related to the influence of personality traits of CEOs on business decisions by presenting evidence related to the influence of managers on the firm's strategies and performance.

It seems that narcissists view characteristics such as arrogance in a positive light than non-narcissistic people and have more motivation to cultivate such traits. Hart and Adams (2014) argued that narcissistic individuals evaluate all their characteristics more positively than non-narcissistic individuals. Therefore, Zhu and Chen (2015) state narcissist CEOs manage organizations differently than non-narcissists. They pursue the admiration and attention (Mullins & Kopelman, 1988) and praise (Morf and Rhodewalt, 1993; Morf & Rhodewalt, 2001; Rhodewalt *et al.*, 2006) of others, and they need public approval to validate their achievements (Chatterjee & Hambrick, 2007, 2011; Gerstner *et al.*, 2013). Narcissism is ever so important for organizations, especially regarding leadership and decision-making (Campbell *et al.*, 2011), and plays a fundamental role in performance (Peterson *et al.*, 2012). Although narcissistic leaders create benefits for their organization (Mainah & Perkins, 2015), some researchers like Kets de Vries (2004) consider the

existence of a degree of it necessary for the firm. However, vast literature shows that by implementing aggressive strategies, narcissistic leaders seek fame, acclaim, and praise, even if the results are detrimental. To achieve these goals, questionable actions may significantly affect the company's results and follow more praise and attention (Cragun *et al.*, 2020). Such questionable actions include bullying (Regnaud, 2014), financial fraud (García-Meca *et al.*, 2021), distorting financial information (Capalbo *et al.*, 2017), increased likelihood of using corporate tax shelters (Olsen & Steckelberg, 2016), and fraudulent financial reporting (Risjenbilt and Commandeur, 2013). Bajo *et al.* (2021) stated that narcissistic CEOs make decisions to engage in complex strategies to maintain a positive sense of self and increase self-esteem. Since the responsibility of preparation and final approval of the financial statements rests with the CEOs, one important point is that their remuneration depends on the reported results in most cases (Risjenbilt and Commandeur, 2013). Using measures of financial performance and operational activities, top executives satisfy the need for continuous approval (Olsen *et al.*, 2014) and earn a reasonable reputation for themselves (Al.Shammari., 2017). The results obtained by Ham *et al.* (2017) highlight the importance of the personality trait of narcissism in financial reporting decisions. Beasley and Carcello (1999) and Cohen *et al.* (2010) stated that sufficient evidence clarifies the crucial role of executive personality traits in the likelihood of financial reporting fraud. These results support Statement on Auditing Standards (SAS) No. 99, which suggests "attitude" is a potential risk factor for fraud. Rijsenbelt (2011) provides evidence that narcissistic CEOs are more inclined to commit managerial fraud to maintain their appearance and status. In addition, CEOs with a high level of narcissism will be more involved in earnings management tactics to compensate for their performance (Lin *et al.*, 2020). In addition, the CEO's overconfidence makes them overestimate the returns on their investment projects and view external funds as unduly costly (Malmendier & Tate, 2005). However, Galasso and Simcoe (2011) stated that overconfident CEOs are likelier to lead their companies in a new technological direction. In general, the evidence suggests that narcissistic CEOs seek to increase influence, control the organization, and achieve their goals through earnings management, increased cash flows, material misstatements, and aggressive tax strategies.

The CEO prepares the financial statements for presentation to users, hence is responsible for shaping, approving, and monitoring the company's tax policies (Rossignol, 2002). Also, given the important implications of tax planning, the board plays a critical role in ensuring that the firm pursues appropriately risk-balanced tax reduction strategies (Beasley *et al.*, 2021). The Organizational settings are such that they may provide opportunities for narcissistic CEOs to achieve their ambitions (Lee & Walsh, 2014), which can be associated with aggressive tax strategies, paying lower taxes, showing higher accounting income associated with CEO remuneration (Olsen & Stekelberg, 2016), and financial reporting (Cragun *et al.*, 2020). The obtained shared of evidences show that narcissistic CEOs participate more than other executives in designing and implementing aggressive plans, including taxes (Lumpkin & Dess, 1996; Chatterjee & Donald Hambrick, 2007; Olsen & Stekelberg, 2016; García-Meca *et al.*, 2021).

Hanlon and Heitzman (2010) examined different criteria to measure tax avoidance. In many studies, GAAP ETR (total income tax expense divided by pretax income) and CashETR (cash tax expense divided by pretax income) have been used (Desai and Dharmapala, 2006; Dyreng *et al.*, 2008, 2010; Minnick and Noga, 2010; Adhikari *et al.*, 2006; Chen *et al.*, 2010; Lanis and Richardson, 2011; Lanis *et al.*, 2017). The ETR measure shows the impact on financial accounting earnings, and the CashETR shows the impact on cash costs (Dyreng *et al.*, 2008). Dyreng *et al.* (2008) stated that firms' long-term tax avoidance ratio is based on the ability to pay a low amount of cash taxes per dollar of pre-tax income over long periods. It is recalled that tax avoidance includes legal strategies and techniques that reduce the firm's tax relative to accounting income and thus will not be unethical (Beer *et al.*, 2020; Wang *et al.*, 2020). Therefore, we must distinguish between tax avoidance and tax evasion, which includes illegal activities (Beer *et al.*, 2020; Alm.,1988). However, some literature considers tax avoidance to have all legal and illegal tax strategies that can reduce income taxes (Fuest and Riedel, 2009; Hanlon and Heitzman, 2010; García-Meca *et al.*, 2021; Alstadsaeter *et al.*, 2022).[4] Furthermore, Baghdadi *et al.* (2022) highlight that narcissistic CEOs are inclined to reduce effective tax rates only when they can employ complex, risky, and sophisticated income-shifting strategies. Narcissism, particularly in emerging economies, influences corporate decision-making and strategies among CEOs and is often linked to

unethical and opportunistic behaviors, such as tax avoidance. Executives with this personality trait tend to be more aggressive and are more likely to adopt tax avoidance strategies(Cortez Araújo, V. *et al*,. 2021). The findings of Saputri and Kusumawardani (2024) suggest that during the COVID-19 pandemic, amidst a severe global economic recession when governments introduced tax incentives to support businesses, narcissistic CEOs exhibited an increased tendency to adopt aggressive tax strategies.

According to the above, it can be said that firms seek to maximize their wealth by following aggressive tax strategies. Hence, narcissistic CEOs are prone to use these strategies compared to other managers to create trust, admiration, and reputation among investors and beneficiaries, increase the company's income, and control others to lead the company to fame.

H_1: Narcissistic CEOs are more oriented to implement tax avoidance strategies.

2.2. Monitoring characteristics of the audit committee

Although upper echelons theory indicates that organizational choices reflect some extent, the personality characteristics of top managers (Hambrick 2007; Hambrick & Mason 1984). However, shared of evidences suggest that CEOs are increasingly playing an active role in setting and evaluating aggressive strategies, including taxation (Ernst & Young 2004). Some studies argue that certain factors of the company such as the size of the board of directors (Abdul Wahab & Holland, 2012; Lanis & Richardson, 2011; Zemzem & Ftouhi, 2013), ownership structure(Alkurdi & Mardini, 2020), Firm-level Legality(Ginesti *et al.*, 2020), family ownership (Chen *et al.*, 2010; Gaaya *et al.*, 2017; Titick Puji, 2019), corporate social responsibility(López *et al.*, 2019; Sismanyudi & Firmansyah, 2022) and corporate governance(Bayar *et al.*, 2018; Kovermann & Velte, 2019; Tandean & Winnie, 2016; Widyastuti, 2018), affect the tax avoidance strategies of companies. Hence, it seems necessary to investigate other factors that may moderate tax avoidance caused by the narcissism of CEOs.

Another factor that can widely affect the aggressive tax policies caused by the narcissism of CEOs is audit committees. Since audit committees are responsible for selecting an independent auditor, monitoring the audit process, and ensuring the integrity of financial reporting (Menon & Wiliams, 1994),

its role and importance as one of the most important corporate governance mechanisms affecting firm strategies, including tax avoidance, should not be ignored. As one of the board of directors sub-committees, the audit committee is considered an effective tool that can reduce information asymmetry and improve financial reporting, provided that it has independence and sufficient expertise (Klein, 2002). Audit committees are designed to monitor and limit the various decisions of executives (Thiruvadi & Huang, 2011) and can improve shareholder wealth by increasing benefits or reducing costs (Choi *et al.*, 2014). The effectiveness of the audit committees, including mandatory disclosures, makes its supervisory performance more accurate, improves audit efficiency, increases public confidence in the financial reporting process (Rezaee *et al.*, 2003), and ultimately, reduces discretional behaviors such as power, earnings management, fraud, and aggressive strategies (Abbott *et al.*, 2000; Yang & Krishnan, 2005; Piot & Janin, 2007; and Sun *et al.*, 2011; Willamson, 1963). In addition, since audit committees have a supervisory role, they significantly influence tax avoidance strategies (Dang *et al.*, 2022; Richardson *et al.*, 2013) and risky tax planning (Hsu *et al.*, 2018). However, audit committees have limitations such as size, gender diversity, periodic meetings, and limited information about management (Dezoort *et al.*, 2002; Piot & Janin, 2007; Klein, 2002; Ebrahim, 2007). According to the Securities and Exchange Commission mandate, especially after 1999, the increase in board members and its special committees is the subject of many studies. Also, with the suggestion of the Blue Ribbon Committee (1999), the SEC mandates that audit committees should consist of at least four directors.

2.2.1. Moderating role of the audit committee independence

Audit committees should be independent of the management to perform their supervisory role, improve internal controls, promote performance and protect the interests of shareholders (Deslandes & Fortin, 2020). Independent audit committees can reduce earnings management (Klein, 2002; Bédard *et al.*, 2004; Ebrahim, 2007; Lin & Hwang, 2010; De Vlaminck & Sarens, 2015), improve the quality of financial reports (Carcello & Neal, 2000; Klein, 2002; Abbott *et al.* 2004), and minimize restatement of financial statements (Abbott *et al.*, 2004; Farber, 2005; Lary & Taylor, 2012). The importance of the audit committee independence is reflected in most recommendations for the constitution of a

mandatory audit committee. Abbott *et al.* (2004) showed that an independent audit committee can evaluate internal controls and financial information more realistically. The audit committee independence helps the external auditors raise issues such as weaknesses in internal controls, disagreements with the CEO about accounting procedures, signs of possible management abuse, and other illegal actions by company officials with the audit committee (Klein, 2002). Also, Ameer *et al.* (2010) and Beasley *et al.* (2000) stated that the audit committee independence helps to reduce financial fraud in a firm. As a result, it is likely to improve the company's financial performance.

The literature suggests that audit committee independence enhances the monitoring of financial information and is necessary for tax-risk management, as non-independent audit committee members may want to minimize taxes to increase net profits and share prices (Deslandes & Fortin, 2020). The available evidence on the role of efficient and effective corporate governance concerning tax strategies indicates that independent audit committees can help reduce aggressive tax policies (Arismajayanti & Jati, 2017; Deslandes & Fortin, 2020). Independent audit committees are an effective mechanism to help the company's long-term strategies and periodically evaluate the implemented strategies to reduce tax avoidance actions (Tandean & Winnie, 2016; Dang & Nguyen, 2022). The results obtained by Zheng *et al.* (2019) show that if a firm constitution an audit committee, the possibility of tax aggressiveness is lower, and the higher its independence, the greater this effect. Furthermore, Zengin-Karaibrahimoglu *et al.* (2021) suggest that independent audit committee members are less susceptible to the potential biases of narcissistic CEOs when they have direct access to strategic and operational information. In fact, the true independence and resilience of audit committee members are essential for addressing the challenges posed by a potentially narcissistic CEO. An independent board committee can be said to restrict the unethical strategies, including those related to ESG (environmental, social, and governance), employed by narcissistic CEOs (Martínez-Ferrero *et al.*, 2024).

In line with the above arguments, we expect independent audit committees to monitor the decisions of narcissistic CEOs more closely and limit their aggressive tax strategies. Therefore, hypothesis 4 is proposed as follows:

H_2: The tax avoidance effect of CEO narcissism is reduced with increasing independence of the audit committee.

2.2.3. Moderating role of gender diversity in audit committees

Since, in recent years, the role of women has been highlighted as an influential factor in the leadership cycle of organizations, many studies have increased our knowledge about the role of women in supervisory strategies and financial decision-making. From a psychological viewpoint, female characteristics such as benevolence, universalism, willingness to obey laws and rules, emotional behavior, and empathy make their leadership role more focused on stakeholders and social issues (Cumming *et al*., 2015), and elevate the welfare of others to a greater extent (Bittle & Marini, 1995; Schwartz & Ruble, 2005). Hence, females tend to use more transformational, effective, and efficient leadership styles (Eagly *et al*., 2003; Hoyt & Simon, 2017).

According to theories pertaining to both personal development and competitive success, women are supposed to be less likely than males to act unethically (Loo, 2003). According to Swamy *et al*. (2001), bribery is less common among female managers, and corruption is lower in nations with a higher proportion of women in the workforce or in government. According to resource dependence theory (Pfeffer & Salancik, 1978) and stakeholder theory (Donaldson & Davis, 1991), having women in the corporate governance structure is crucial for building positive relationships with the stakeholders.

When audit committees are diverse, there is a larger range of perspectives and, as a result, better decisions that can lead to higher business value and performance (Burgess & Tharenou, 2002; Singh & Vinnicombe, 2004; Carter *et al*., 2003). Also, Adler (2001) stated that there is a strong relationship between the presence of women and firm profitability. In addition, there are recent studies on the effects of gender differences that state that the presence of women on audit committees or boards of directors can have positive results in effective monitoring (Stewart & Munro, 2007; Itonen *et al*., 2009), which will lead to better financial reporting quality (Thiruvadi & Huang, 2011). They also increase organizational dynamism, pursue less risk, improve profitability (Nadeem *et al*., 2019), and obey laws and regulations more than men (Brinig, 1995; García-Meca *et al*., 2020). Existing studies show that women are generally more risk-avoider than men. Hence, they tend to have less risky assets in their investment portfolio (Jianakoplos & Bernasek, 1998; Sundén & Surette, 1998; Bernasek & Shwiff, 2001).

Additionally, some studies show that women managers are associated with less earnings management (Barua *et al*. 2010), more conservative accounting (Francis *et al*. 2013), and less risky financial and investment decisions (Huang & Kingen 2013). Adams and Ferreira (2009) found that gender-diverse US firms generally exerted stricter monitoring of aggressive strategies.

Francis *et al*. (2014) provided evidence that managers' gender is a significant determinant of aggressive strategies and that female executives are associated with less tax aggressiveness than their male counterparts. Hence, the presence of at least one female board member reduces the probability of tax aggressiveness (Richardson *et al*., 2016). Farrell and Hersch (2005) argue that gender-diverse boards, through increased activity and ongoing follow-up, make greater efforts to monitor the actions of managers suspected of narcissism closely. Evidence indicates that gender diversity influences the relationship between CEOs and the extent of corporate social responsibility(CSR) disclosures, including social disclosure. Furthermore, these findings are widely applicable in econometrics and financial reporting, demonstrating their robustness (Lassoued & Khanchel, 2023).

The research conducted in fields such as psychology, finance, and management has obtained valuable findings regarding the presence of women in the structure of organizations. In fact, what appears from the evidence is that gender diversity in the regulatory structure will lead to more powerful controls. Also, female managers as those who follow the rules and regulations more, are more strict supervisors, pay more attention to the interests of shareholders and stakeholders, and are more risk averse. As a result, gender-diverse audit committees are expected to be more sensitive to aggressive tax strategies and reduce them. Hence, according to the stated content, the following hypothesis can be stated regarding the presence of women on the committee as a moderating factor:

H_3: Audit committee gender diversity reduces the effect of tax avoidance of narcissism.

Fig. I. Based on the stated theoretical foundations, the moderating role of the audit committee on tax avoidance caused by narcissistic CEOs can be depicted in the form of the following proposed model.

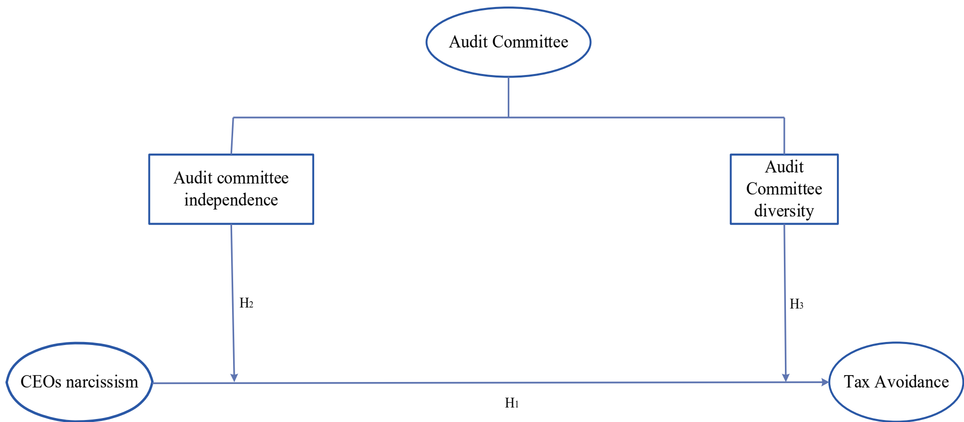

Fig. I: Research Model

3. RESEARCH DESIGN

3.1. Data collection

We collected data on audit committee information, CEO signatures, and control variables from audited annual reports and accompanying notes to financial statements between 2015 and 2021 via the Comprehensive Database of All Listed Companies (CODAL)[5] and the age of CEOs through the Ministry of Interior.

As shown in Table I, by the end of 2021, 627 companies were listed in CODAL (4,222 firm-years), but 97 (679 firm-years) were removed from the sample because their financial year was not following the calendar in Iran. This is the case because business entities in Iran have a maximum of 4 months after the end of the financial year to approve the audited financial statements in the shareholder meeting. Likewise, based on previous studies of 95 firms investment, banking, insurance, leasing, and holding companies (265 firm-years) due to the different regulatory environments, governance structure, specific methods of disclosing financial statements and accounting procedures about the recognition of profit and taxes removed from the list (How *et al.*, 2014; Tee, 2019; Muttakin *et al.*, 2015; Saeed *et al.*, 2017; Faraji *et al.*, 2020). In the last stage, 85 firms (595 firm-years) that have been trading halt for more than three months and whose information remains inaccessible have been removed from the sample.

In addition, Table II shows the sample allocation by industry. Overall, the final sample includes 26 industries, most related to companies active in the base metals and pharmaceutical industry.

Table I: Sample selection procedure

Description	N	Observations
Total number of TSE-listed firms	627	4,222
Firms whose fiscal year-end does not correspond to calendar year-end	(97)	(679)
Investment, banking, insurance, leasing and holding firms	(265)	(1,829)
Firms that have more than three months of trading halt and information remain inaccessible information or are delisted	(85)	(595)
Number of sample firms	180	1,128

Table II

Industry	*Freq.*	*Percent*	*Cum.*
computer	49	4.34	4.34
Pharmaceuticial	132	11.70	16.05
rubber and plastic	38	3.37	19.41
Automotive and parts	124	10.99	30.41
equipment and machines	41	3.63	34.04
Metal products	19	1.68	35.73
Base materials	138	12.23	47.96
Metal ore extraction	41	3.63	51.60
Petroleum products	60	5.32	56.91
Chemical	124	10.99	67.91
Non-metallic mineral	46	4.08	71.99
Food & beverage, except for sugar	81	7.18	79.17
Industrial contracting	7	0.62	79.79
Technical & engineering	7	0.62	80.41
Transportation & warehousing	24	2.13	82.54
Oil & gas extraction	7	0.62	83.16
Cement, lime & plaster	104	9.22	92.38
Paper products	7	0.62	93.00
Tile & ceramic	34	3.01	96.01
Electrical devices	13	1.15	97.16
Mining of other mines	4	0.35	97.52
Electricity, gas, steam & hot water supply	4	0.35	97.87
Coal mining	10	0.89	98.76
Sugar	3	0.27	99.02
Wooden products	5	0.44	99.47
Agriculture & related services	6	0.53	100.00
Total	1128	100.00	

3.2. Measurements and definition of variables

3.2.1. Dependent variable

Since the first goal of this research is to investigate narcissistic CEOs' personality trait's consequences on firm tax avoidance, following previous studies, the effective tax rate (ETR) is used as a proxied variable for tax avoidance(Adhikari *et al.*, 2006; Chen *et al.*, 2010; Dyreng *et al.*, 2010; Lanis & Richardson, 2011; Lee *et al.*, 2015; Olsen & Stekelberg, 2015; Lanis *et al.*, 2017; García-Meca *et al.*, 2020; Ismail & Megahed, 2022). The effective tax rate (ETR) is computed from the ratio of income tax expense to pretax book income that firms are required to disclose in their financial statements (Dyreng *et al.*, 2007), and it shows tax planning through constant book-tax differences (Chen *et al.*, 2010). Tax avoidance can be described as all legal and illegal strategies and anything that; increases the value of the business entity, prevents the outflow of cash resources (Wang *et al.*, 2020), reduces the tax burden, increases positive cash flow effects in the short term (Desai & Dharmapala, 2009), and maintenance of favorable credit ratings (Scholes *et al.*, 2005; Shackelford & Shevlin, 2001). Since negative values for the ETR mean the company in a given year is loss-making and due to a tax refund, we consider zero instead of negative values (Dyreng *et al.*, 2008; Lanis & Richardson, 2018; García-Meca *et al.*, 2020; Dane *et al.* 2022). Furthermore, since ETR is higher means less tax aggressive, ETR is used as an inverse measure of tax aggressive (Steijvers & Niskanen,2014; Khajavi *et al.*, 2018). Below is the mathematical formula for calculating the ETR:

$$(1)\ ETR_{i,t} = \frac{\text{Total Tax Expenses}_{i,t}}{\text{Pre-Tex Income}_{i,t}}$$

3.2.2. CEOs' narcissism

CEOs have high formal power as leaders of organizations (Niszczota, 2015). Therefore, those who have a narcissistic personality may avoid participating in questionnaire research (Chatterjee & Hambrick, 2007), or if they participate in a survey, they may be biased to provide more favorable or overly positive answers (Paulhus, 2002; Agnihotri & Bhattacharya, 2019). In recent literature, there are few methods to measure the narcissism of the CEO. According to the

environmental conditions and limitations of this research, the following will be used:

(a) Signature size: Research on the link between signing and narcissism has a long history. Since the 1970s, psychologists have found that people with larger signatures tend to be more self-conscious and narcissistic (Snyder & Fromkin, 1977). Also, Zwaigenhoeft and Marlow, (1973), Zweighenhaft (1977), Jorgenson (1977) showed that signature size could be used to measure self-consciousness and dominance over others and that individuals with larger signatures seek to control and dominate others. The natural logarithm of the number of pixels in the CEO's signature image is used as a proxy to indicate the CEO's level of narcissism (Campbell *et al.*, 2011; Xiang & Song, 2021).

(b) Bainery variable: Based on comparing the signatures of the CEO and board members. Narcissistic CEOs may seek more rewards by creating positive effects on the board and/or shareholders (Goncalo *et al.*, 2010; Nevicka *et al.*, 2011; Ong *et al.*, 2016), and others may mistakenly consider this narcissism a form of merit (Nevicka *et al.*, 2011). Hence, following Ham *et al.* (2018), we calculate the area of the CEO's signature and then compare it with the signatures of other board members; if its size is larger than the average area of the board members' signatures, the number is one and 0 otherwise.

3.2.3. Moderate variables

Since the relationship between the CEO's narcissism and tax avoidance cannot be investigated without the existence of corporate regulatory elements, including the audit committee, in this research, we have examined the characteristics of the committee as a moderating factor in this relationship. Therefore, following Bédard *et al.* (2003), the independence of the audit committee is a dichotomous variable of zero and one. When the ratio of non-executive members of the audit committee to the total number of the audit committee is more than 0.5, it indicates relative independence and is equal to one, and 0 otherwise. Specifically, we consider the gender diversity in the audit committee based on a dichotomous variable in the case of at least one woman in the audit committee.

3.2.4. Control variables

Consistent with past research in this area and based on reliable theories, we will use several known variables that may affect tax avoidance.

To minimize the impact of other effective factors on tax avoidance and more accurate measurement and to achieve reliable results following Zhang and Hu (2013), Cheng *et al.* (2016), Liu and Lee (2019); Deslandes and Fortin (2019), Xiang and Song (2021) and García-Meca *et al.*, 2021, control variables, including financial LEV, ROA, Owncon, Bsize, Duality, Fsize, CEOage, and Bmeetings will be used. The definition of the variables is stated in Table III.

Table III

Variable definition	*Description*
ETR	The Effective Tax Rate is obtained by dividing the total income tax expense in the income statement by the pre-tax book income. The interpretation of this ratio is expressed in reverse. That is, a lower effective tax rate means higher tax avoidance.
CEO - narcissism	Based on: (1) the natural logarithm of the CEO's signature area; (2) Using a binary variable to compare the signature area of the CEO and board members.
Moderate Variables	
ACi	The independence of the audit committee is a dichotomous variable of zero and one. When the ratio of non-executive members of the audit committee to the total number of the audit committee is more than 0.5, it indicates relative independence, is equal to one, and 0 otherwise.
AC diversity	A binary variable. If there is at least one woman on the audit committee, it gets 1 and 0 otherwise.
Control Variables	
LEV	Total total liabilities divided by total assets
ROA	Through the ratio of operating profit before interest and taxes on total assets
Owncon	The Percentage of ordinary shares owned by the first and second largest shareholders
Bsize	The number of board members
Duality	Binary variable, equal to one if the CEO is the chairman or vice chairman of the board of directors, and zero otherwise.
Fsize	The logarithm of total assets
CEO-age	The natural logarithm of the CEO's age
Bmeetings	The number of meetings held by the board

3.3. Regression models

In this article, we seek two valuable goals: first, to examine the extent of the influence of CEO narcissism on tax avoidance, and second, if there is a relationship, whether effective audit committees can reduce this effect or not.

To investigate the first objective, we will use the following regression model, which tests the ETR[6] as a proxy for tax avoidance through the independent variable of CEO narcissism and other control variables.

$$ETR_{it} = \beta_0 + \beta_1 ETR_{it-1} + \beta_2 CEO_narcissism_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 Owncon_{it} + \beta_6 Bsize_{it} + \beta_7 Duality_{it} + \beta_8 Fsize_{it} + \beta_9 CEOage_{it} + \beta_{10} Bmeetings_{it} + \sum \beta_j industry_i + \sum \beta_K year_t + \eta_i + \mu_{it} \quad (1)$$

Since researchers such as Robinson *et al.* (2012), and Deslandes and Fortin (2019) introduced audit committees as an effective and efficient mechanism to limit aggressive tax strategies in models 2 and 3, to achieve the second goal, we will examine the characteristics of the audit committee as a moderating tool. Therefore, in models 2 and 3, the moderating indicators of the committee, including independence and gender diversity, are regressed once separately and again as a product with the independent variable.[7]

$$ETR_{it} = \beta_0 + \beta_1 ETR_{it-1} + \beta_2 CEO_narcissism_{it} + \beta_3 ACi_{it} + \beta_4 CEO_narcissism_{it} * ACi_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 Owncon_{it} + \beta_8 Bsize_{it} + \beta_9 Duality_{it} + \beta_{10} Fsize_{it} + \beta_{11} CEOage_{it} + \beta_{12} Bmeetings_{it} + \sum \beta_j industry_i + \sum \beta_K year_t + \eta_i + \mu_{it} \quad (2)$$

$$ETR_{it} = \beta_0 + \beta_1 ETR_{it-1} + \beta_2 CEO_narcissism_{it} + \beta_3 ACdiversity_{it} + \beta_4 CEO_narcissism_{it} * ACdiversity_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 Owncon_{it} + \beta_8 Bsize_{it} + \beta_9 Duality_{it} + \beta_{10} Fsize_{it} + \beta_{11} CEOage_{it} + \beta_{12} Bmeetings_{it} + \sum \beta_j industry_i + \sum \beta_K year_t + \eta_i + \mu_{it} \quad (3)$$

In the regression model with mixed data, when the lag(s) of the dependent variable is present in the aggregate of the independent variables, using the OLS approach (including fixed, random, and pooled effects approaches) no longer provides valid results, because, in this situation, the model regression is a family of self-explanatory models. Therefore, the dynamic panel approach or GMM[8] will be used in this situation (Arellano & Bond, 1991). Using the GMM of serial autocorrelation eliminates the first-order error term in the second-order. Furthermore, in GMM models, the error term is decomposed into a stochastic error term, varying the cross-time and cross-section combined effects (μ_{it}), and

the unobserved time-invariant, industry-specific effect (η_i). They are also more suitable than other standard models for determining coefficients for time-invariant variables (Piper, 2014).

4. RESULTS

4.1. Univariate results

Descriptive statistics are presented in Table IV. The dependent variable of **ETR** shows values of 10.3% for the mean and has a minimum of 0 and a maximum of 1, which is consistent with previous studies (Lanis & Richardson, 2011; Armstrong *et al.*, 2015; Goh *et al.*, 2016; García-Meca *et al.*, 2021). This shows that the firms on the Tehran Stock Exchange have a share equal to 10.3% of their total profit as estimated tax liability. Since effective tax rates are used as an inverse measure of tax avoidance, lower values for the ETR rate indicate greater tax avoidance (Steijvers *et al.*, 2014). Regarding the independent variables, signature size (**CEO-narcissismln**) and binary variable (**BCEO-narcissism**) averages were 9.067 and 0.49 during the studied years.

Concerning the audit committee independence (**ACindependence**) is a binary variable with an average of 0.937, which indicates an acceptable level. In addition, the gender diversity (**ACdiversity**) of the audit committee is a binary variable (0 and 1), with a mean of 0.155, which shows that a limited number of business entities (15.51%) use female managers in their audit committees.

Additionally, the **LEV** and **ROA** are 56.4% and 16.8%, respectively. This value for the ownership concentration (**Owncon**) is 62.9%. The average value for the board members size (**Bsize**) is 5.012, with the smallest of which has 3 members and the largest has7 members. In addition, 32.7% of the CEOs were the chairpersons of the board (**Duality**), and the firm size (**Bsize**), based on thousand rials, is 7.497. Finally, the average CEOs age (**CEOage**), expressed based on the natural logarithm, is 3.983, and the number of board meetings (**Bmeetings**) is 14.051, with a minimum of 0 and a maximum of 81 meetings per year.

Furthermore, Table V shows that the correlation coefficient (Panel A) between research variables is low (<0.8), and VIF values (Panel B) are less than 10 with a range of 1.09 to 1.90 and emphasizes that there is no multicollinearity between the variables.[9]

Table IV: Descriptive Statistics

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
ETR	1128	.103	.094	0	.501
CEO-narcissismln	1123	9.067	.573	7.151	10.614
BCEO-narcissism	1128	.49	.5	0	1
ACindependence	1128	.937	.243	0	1
ACdiversity	1128	.155	.362	0	1
LEV	1128	.564	.246	.031	4.003
ROA	1128	.168	.159	-.784	.824
Owncon	1128	.629	.206	0	1
Bsize	1128	5.012	.252	3	7
Duality	1128	.327	.469	0	1
Fsize	1128	7.497	2.099	4.497	14.049
CEOage	1128	3.983	.162	3.367	4.382
Bmeeting	1128	14.051	10.896	0	81

4.2. Multivariate results

As is apparent in Table VI, the estimation results of Model 1 are presented to investigate the effect of personality characteristics of managers on aggressive tax strategies. Since the first goal was to investigate the effect of CEOs' narcissism on tax avoidance, the negative coefficient of the independent variable confirms the increasing influence of CEO narcissism on the ETR (coef. -0.016, $p < 0.05$). In fact, it can be said that the presence of narcissistic CEOs as the primary pillar of leadership leads companies to aggressive tax strategies. Therefore, supporting the first hypothesis of this research, the findings show the effect of CEOs' narcissism in increasing tax avoidance.

On the other hand, models 2 and 3 will investigate the moderating effect of audit committee characteristics on CEOs' tax avoidance policies and test research hypotheses. It should be noted that investigating the moderating effect implies the performance with the coefficients. Based on this, the results prove that the negative effect of managers' narcissism on tax avoidance is reduced in firms with independent audit committees (coef. -0.010 + 0.006 = -0.004). As a result, according to the second hypothesis, the existence of independent members in audit committees will be effective as a mechanism to reduce tax avoidance caused by narcissism.

Table V: Pearson correlation Matrix

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*
(1) ETR	1.000												
(2) CEO-narcissismln	0.016	1.000											
(3) BCEO-narcissism	0.026	0.586***	1.000										
(4) ACindependence	-0.012	0.006	-0.016	1.000									
(5) ACdiversity	-0.021	0.075**	0.016	-0.010	1.000								
(6) LEV	-0.018	-0.004	-0.055*	-0.053*	-0.066**	1.000							
(7) ROA	0.211***	0.023	0.025	0.064**	0.043	-0.573***	1.000						
(8) Owncon	0.041	0.008	0.024	0.017	-0.121***	0.186***	-0.029	1.000					
(9) Bsize	0.064**	-0.052*	-0.048*	0.027	0.144***	-0.035	-0.028	-0.061**	1.000				
(10) Duality	-0.011	-0.044	-0.068**	0.002	-0.074**	0.110***	-0.004	0.051*	-0.049*	1.000			
(11) Fsize	0.014	-0.056*	-0.036	-0.008	-0.003	-0.012	-0.016	-0.081***	0.016	0.031	1.000		
(12) CEOage	0.028	-0.114***	-0.077**	0.008	0.015	-0.086***	0.039	-0.089***	0.015	0.001	0.118***	1.000	
(13) Bmeeting	-0.014	-0.059**	-0.025	0.045	0.019	-0.187***	0.212***	-0.025	0.051*	0.142***	-0.015	0.071**	1.000
Panel B: Multicollinearity Diagnostics using Variance Inflation Factor (VIF)													
		1.13	1.12	1.16	1.09	1.90	1.82	1.29	1.48	1.18	1.13	1.19	1.33

Existing evidence reports gender diversity as an emerging supervising factor in committees. Therefore, according to the interaction term, the results obtained from the study of the effect of gender diversity on tax avoidance caused by CEO's narcissism consider it a constraining mechanism for aggressive tax strategies (coef. -0.019 + 0.010 = -0.009).

Overall, the findings confirm the following evidence: (1) the narcissism personality trait of CEOs increases tax avoidance; (2) the effect of tax avoidance caused by the narcissism of CEOs decreases with the increase in the presence of independent members; and finally (3) gender diversity, reduces the effect of tax avoidance result from CEO's narcissism.

Table VI: Results of the dynamic panel models based on the Generalized method of moment

	Model 1	*Model 2*	*Model 3*
ETR_{t-1}	0.227^{***}	0.022^{***}	0.213^{***}
	(0.000)	(0.000)	(0.000)
CEO-narcissism	**-0.016^{***}**	-0.010^{***}	-0.019^{***}
	(0.000)	(0.000)	(0.000)
ACindependence		0.011^{***}	
		(0.000)	
ACindependence * CEO -narcissism		0.006^{**}	
		(0.022)	
ACdiversity			0.040^{***}
			(0.000)
ACdiversity * CEO-narcissism			0.010^{***}
			(0.001)
LEV	-0.009^{**}	0.000	-0.011^{***}
	(0.047)	(0.906)	(0.000)
ROA	0.045^{***}	0.066^{***}	0.049^{***}
	(0.000)	(0.000)	(0.000)
Owncon	$-.118^{***}$	-0.079^{***}	-0.142^{***}
	(0.000)	(0.000)	(0.000)
Bsize	0.015^{**}	0.014^{***}	0.029^{***}
	(0.015)	(0.000)	(0.000)
Duality	0.014^{***}	0.020^{***}	0.009^{***}
	(0.000)	(0.000)	(0.001)
Fsize	0.004^{***}	0.003^{***}	0.005^{***}

	Model 1	*Model 2*	*Model 3*
	(0.000)	(0.000)	(0.000)
CEOage	0.056***	0.066***	0.066***
	(0.000)	(0.000)	(0.000)
Bmeeting	0.000	0.000***	0.001***
	(0.343)	(0.000)	(0.000)
_cons	-0.044	-0.179***	-0.124***
	(0.489)	(0.000)	(0.000)
Year and industry effects	Yes	Yes	Yes
Z	2008.56***	1.50e+06***	52778.56***
	(0.000)	(0.000)	(0.000)
m_1	-3.983***	-3.958***	-3.852***
	(0.000)	(0.000)	(0.000)
m_2	-0.130	-0.066	-0.348
	(0.896)	(0.948)	(0.728)
Sargan	145.978	156.704	162.278
	(53.16)	(84.92)	(76.29)

Estimated coefficient (etd. error): Z shows the significance of the whole model by the Wald test. The Wald statistic of the null hypothesis is that all the coefficients except the constant are zero; M1 and M2 are the results of the serial autocorrelation test in the first difference errors, where the null hypothesis indicates no serial correlation; Sargan is a test of over-identification of restrictions. The Sargan test's non-significance also indicates no significant correlation between the instruments used in the estimation and error term of the model. This does not disallow the validity of the tools. ***, **, and * represent statistic significant level for 1%, 5%, and 10%.

4.3. Robustness analyses

In this section, we evaluate the validity of our main results using a proxy variable for the independent variable. First, we seek to confirm that our results are consistent despite using a different measure for CEO's narcissism. Hence, we estimate the CEO's narcissism by comparing the signature size of the CEO and board members (Zweigenhaft, 1977; Ham *et al.*, 2018). The evidence presented in Table VII shows the robustness of the research results. The presented analysis confirms our previous results and shows a positive relationship between CEO narcissism and tax avoidance (Model 1). Furthermore, the results of (model 2) are valid because there is no significant deviation in confirming this hypothesis. It also shows that the moderating variable of gender diversity (model 3) moderates the negative effect of narcissism on tax avoidance.

Table VII: Results of the dynamic panel models based on the Generalized method of moment for the robust model

	Model 1	*Model 2*	*Model 3*
ETR_{t-1}	0.234^{***}	0.227^{***}	0.229^{***}
	(0.000)	(0.000)	(0.000)
BCEO-narcissism	**-0.015^{***}**	-0.015^{***}	-0.022^{***}
	(0.000)	(0.000)	(0.000)
ACindependence		0.005^{***}	
		(0.000)	
ACindependence * CEO -narcissism		0.063^{***}	
		(0.000)	
ACdiversity			0.035^{***}
			(0.000)
ACdiversity * CEO -narcissism			0.024^{***}
			(0.000)
LEV	-0.027^{***}	-0.024^{***}	-0.032^{***}
	(0.000)	(0.000)	(0.000)
ROA	0.030^{***}	0.051^{***}	0.023^{***}
	(0.007)	(0.000)	(0.000)
Owncon	$-.092^{***}$	-0.075^{***}	-0.104^{***}
	(0.000)	(0.000)	(0.000)
Bsize	0.010^{*}	0.014^{***}	0.018^{***}
	(0.057)	(0.000)	(0.000)
Duality	0.014^{***}	0.012^{***}	0.003
	(0.000)	(0.000)	(0.159)
Fsize	0.003^{***}	0.003^{***}	0.003^{***}
	(0.000)	(0.000)	(0.000)
CEOage	0.052^{***}	0.053^{***}	0.052^{***}
	(0.000)	(0.000)	(0.000)
Bmeeting	0.000	0.000^{***}	0.000^{**}
	(0.647)	(0.000)	(0.015)
_cons	-0.139	-0.185^{***}	-0.167^{***}
	(0.000)	(0.000)	(0.000)
Year and industry effects	Yes	Yes	Yes
Z	4395.98^{***}	56778.15^{***}	30208.95^{***}
	(0.000)	(0.000)	(0.000)

	Model 1	*Model 2*	*Model 3*
m_1	-3.970***	-4.037***	-3.892***
	(0.000)	(0.000)	(0.000)
m_2	0.016	0.118	-0.138
	(0.987)	(0.906)	(0.890)
Sargan	147.413	166.584	168.279
	(49.82)	(68.28)	(64.88)

Estimated coefficient (etd. error): Z shows the significance of the whole model by the Wald test. The Wald statistic of the null hypothesis is that all the coefficients except the constant are zero; M1 and M2 are the results of the serial autocorrelation test in the first difference errors, where the null hypothesis indicates no serial correlation; Sargan is a test of over-identification of restrictions. The Sagan test's non-significance also indicates no significant correlation between the instruments used in the estimation and error term of the model. This does not disallow the validity of the tools. ***, **, and * represent statistic significant level for 1%, 5%, and 10%.

4.4. Discussion of results

The evidence collected in this research provides a new horizon regarding the impact of personality traits of CEOs on aggressive tax strategies and their moderation by effective and efficient audit committees. These results are consistent with literature that posits narcissism as a personality trait that affects the CEO's willingness to engage in dubious behaviors such as tax avoidance (Olsen and Stekelberg, 2016). As Saputri and Kusumawardani (2024) stated, during the economic recession, particularly between 2020 and 2022, narcissistic managers adopted more aggressive strategies to exploit tax incentives. Hence, the results indicate that audit committees with higher levels of independence play a significant moderating role in constraining the tax avoidance strategies caused by CEO narcissism. In fact, evidence shows that audit committees with more diversity and independent individuals significantly affect the firm's tax oversight (Watts & Zimmerman, 1986). The independence of the audit committee in accounting and financial affairs increases the effective monitoring of the management to minimize aggressive tax (Ying, 2011). According to the agency theory, the independent audit committee plays a fundamental role to minimize the aggressive tax decisions of the management. Additionally, the independent directors of the audit committee can control the managers' misbehavior through various monitoring processes (Bansal & Sharma, 2016).

The evidence presented by Báez *et al.* (2018) suggests that gender diversity affects the promotion of corporate governance. The presence of female managers in the corporate governance structure increases the reliability of internal controls. According to the argument presented by Parker *et al.* (2015), female audit committee members examine internal controls more seriously and carefully than their male counterparts. Evidence shows that since women have higher levels of tax compliance than men, they will reduce tax avoidance (Su *et al.*, 2019). In general, it can be said that women avoid risks more than men (Francis *et al.*, 2014). It is important to note that recent studies have extensively explored the pillars of corporate governance. Martínez-Ferrero *et al.* (2024) argue that independent committees play a crucial role in regulating the strategies of narcissistic managers at all levels, particularly in the context of corporate governance.Female managers pay better and more careful attention to making decisions and directing company policies, especially taxes. Since women face many restrictions in some Asian societies, this study confirms their effective presence in promoting corporate governance by following the social role theory. Therefore, Our findings confirm the role of audit committee in limiting tax avoidance strategies.

Furthermore, Our findings show that the audit committee is a critical internal mechanism for dealing with inefficient and welfare-disrupting tax policies. In conclusion, independent and diverse audit committees contribute to reducing tax avoidance, enhancing the transparency of financial reporting, and improving the performance of the business enterprise.

5. CONCLUSION, IMPLICATIONS AND LIMITATIONS OF THE STUDY

In this research, we followed up on whether companies with narcissistic managers pursue higher tax avoidance. Additionally, the inquiry explored whether an independent and diverse audit committee, serving as a vital and efficient cornerstone in corporate governance, can establish effective constraints on tax avoidance policies instigated by narcissistic CEOs. Hence, a sample of Iranian companies was prepared and analyzed with the aim of improving academic research to help companies to address gaps and strengthen audit committees. Likewise, the robust findings indicate that despite the inclination of narcissistic CEOs to engage in risky activities and embrace aggressive tax

strategies, the independent and diverse audit committee serves as a powerful monitoring mechanism, effectively exercising preventive control to limit the tax avoidance impact of CEOs.

The results of this study can help the research done in this field and be an aperture for future research. Also, this study contributes to the destructive results of the CEO's narcissism about material misstatement in financial reporting and the deception of the organization's stakeholders to achieve their own fraudulent goals, including reducing the tax burden (e.g., Beasley *et al.* 1999; Paulhus & Williams 2002; Zahra *et al.*, 2005; Schrand & Zechman, 2012; Rijsenbilt & Commandeur, 2013). Although the influence of personality traits of CEOs, including narcissism, on organizational decision-making has been discussed as a prominent issue in recent research (e.g., Pearece & Robinson, 1987; Lefebvre & Lefebvre, 1992; Giberson *et al.*, 2009; Ham *et al.*, 2018), but beyond the company's performance, narcissism can have other critical consequences for investigation and analysis. While the findings of this paper make a valuable contribution to research in this field, examining the influence of the audit committee on the tax strategies of narcissistic managers, particularly in Asian countries, is an emerging issue that warrants comprehensive investigation and evaluation.

Business enterprises and their stakeholders should know that if bold tax policies appear and are identified, they will damage the economic infrastructure and social welfare. Therefore, they are condemned to illegal policies that lead to serious crimes and tarnish their good reputation. Hence, it can be said that the findings of this study have wide applications in the practice. First, it warns the members of the board of directors, tax officials, shareholders, independent auditors, stakeholders, and the whole community to be aware of the existence of narcissistic CEOs, and it is considered relevant to improve the organizational structure. What should be considered today more than ever in the structure of Iranian companies, some of which have state and quasi-public shares, is the strengthening and development of audit committees. Undoubtedly, this study highlight the significant importance that audit committees (gender diverse and more independent) have as corporate governance tools in preventing and limiting the bold behavior of senior executives. What is clear is the absence of audit committees according to global standards in some companies, which ultimately led to widespread financial fraud, a clear example of which is Esfahan's

Mobarekeh Steel. So, audit committees should be looked at professionally and considered an essential part of the organizational supervision structure.

In addition, this research are consistent with the studies by Patel and Kooper (2014), Ham *et al.* (2017), and Ingersoll *et al.* (2019), which states that narcissistic managers in inordinate investments that lead the company to financial crisis and involved in policies Aggressive, including tax avoidance. Likewise, the research result shows that domestic and foreign investors should pay special attention to the decisions of narcissistic managers who may be inclined to personal goals (self-aggrandizement, fame, etc.) at the macro level and cause serious damage to firms. Furthermore, the obtained findings indicate the key and valuable women's role in the organizational structure, which is forgotten in some companies. It can be said that the results require organizations to take steps to abandon sexism and use women managers to achieve the Sustainable Development Goals (SGDs) and improve the quality of life in society. The findings indicate that female managers are more sensitive in controlling the aggressive tax policies of narcissistic CEOs and respect the interests of stakeholders and society more due to their inherent personality traits. Moreover, the results indicate that appointing independent individuals to audit committees serves as an effective mechanism for monitoring the aggressive tax practices of narcissistic CEOs, thereby aligning with companies' interests in attaining macro-level accomplishments.

Despite the valuable findings of this research, as stated by Olsen and Stakelberg (2016), Araújo *et al.* (2020), and García-Meca *et al.* (2021), the main limitation in our research is the proxy used to measure the personality trait of narcissism. Unfortunately, in this environment, many business enterprises do not disclose the photos of the CEOs and the board in the financial statements. For this reason, instead of using the index introduced by Chatterjee and Hambrick (2011), signature size has been used as an alternative measure. Hence, researchers in the future can use Hall and Haskin's (1979) questionnaire, which was designed based on the Diagnostic and Statistical Manual of Mental Disorders (DSM) published by the American Psychiatric Association (APA). Considering the methodological weaknesses of the sample country of origin in previous studies, our findings cover these gaps and pave the way for future research. Although we examined the audit committee as the key to corporate governance implementation in limiting the aggressive tax

strategies of narcissistic CEOs, we undoubtedly recognize that other monitoring mechanisms, including women on boards, internal auditors, and inspectors, could be investigated in future research. Thus, as research develops, other internal and external factors that limit the tax avoidance activities of narcissistic CEOs will be revealed. More importantly, the footprints of narcissistic CEOs in multinational companies to reach tax havens should not be forgotten.

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Conflict of Interest

There is no conflict of interests involved in the publication of this article.

Notes

1. These two collocations are used interchangeably to express tax avoidance strategies (Frank *et al*., 2009).
2. Chief financial officer
3. Financial Reporting Council
4. The terms tax avoidance and aggressive are used interchangeably to describe tax avoidance strategies (e.g, Chen *et al*., (2010); Huseynov and Klamm (2012); Katz *et al*. (2013); Frank *et al*., (2009); Dyreng *et al*., (2008) and Hanlon and Heitzman, (2010)).
5. www.codal.ir
6. Due to the use of the dynamic model, the dependent variable of the ETR with a lag on the right side of the equation is present among the independent and control variables.
7. The main problem is that in this case, the model becomes collinear in most cases. In many statistical and econometric texts, the concept of Centered variables is used to solve the above problem.
8. Generalized Method of Moments
9. Since the variance inflation factor (VIF) is used in static linear models, the final estimate for multicollinearity analysis was to operate ordinary least squares (OLS) linear regression.

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