

## Do UK Outside CEOs Engage More in Tax Planning than the Insiders?

*(Adakah Ketua Pegawai Eksekutif Luar di UK Lebih Banyak Terlibat dalam Perancangan Cukai Berbanding Ketua Pegawai Eksekutif Dalamannya?)*

Nor Shaipah Abdul Wahab  
(Taylor's Business School, Taylor's University)  
Kevin Holland  
(Cardiff Business School, Cardiff University)  
Teerooven Soobaroyen  
(Essex Business School, University of Essex)

### ABSTRACT

*Firms engage in tax planning to varying extents. One potential determinant of such variations may be the characteristics of senior executives. The objective of this study is to investigate whether CEO origin (insiders or outsiders) and departing CEO tenure are significant in explaining the extent of corporate tax planning. The sample is non-financial London Stock Exchange listed firms from 2005 to 2011. Upon regressing tax planning on CEO origin, departing CEO tenure and other control variables, we find robust evidence that outsiders are associated with higher levels of tax planning than the insiders. Our results also reveal a negative moderating influence of departing CEO tenure on tax planning levels of current CEOs. Collectively, this paper provides the first UK evidence on the influence of CEO origin and departing CEO tenure on tax planning. This paper has important implications for tax authorities since it highlights CEO characteristics can be relevant indicators in a tax avoidance-risk assessment exercise. The findings will also be of interest to management and its board when considering factors of interest in a turnover scenario.*

*Keywords: Tax planning; CEO origin; departing CEO tenure; upper echelons theory*

### ABSTRAK

*Darjah keterlibatan syarikat dalam perancangan cukai adalah berbeza di antara sebuah syarikat dengan syarikat yang lain. Ciri-ciri pegawai eksekutif kanan merupakan faktor yang berkemungkinan mempengaruhi perbezaan berkenaan. Objektif penyelidikan ini adalah untuk menyiasat sama ada ciri asal ketua pegawai eksekutif (CEO dalaman atau luaran) dan tempoh perkhidmatan CEO terdahulu adalah signifikan dalam menerangkan tahap perancangan cukai syarikat. Sampel kajian ini ialah syarikat bukan kewangan yang tersenarai di London Stock Exchange untuk tempoh 2005 sehingga 2011. Dengan menjalankan analisa regresi perancangan cukai ke atas ciri asal CEO, tempoh perkhidmatan CEO terdahulu dan pembolehubah kawalan yang lain, kami mendapati penemuan yang kukuh bahawa kadar keterlibatan CEO luar dalam perancangan cukai lebih tinggi berbanding CEO dalaman. Keputusan kajian ini juga mendapati bahawa tempoh perkhidmatan CEO terdahulu mempengaruhi hubungan berkenaan secara negatif. Kajian ini adalah yang pertama seumpamanya yang mengetengahkan penemuan tentang pengaruh ciri asal CEO dan tempoh perkhidmatan CEO terdahulu terhadap perancangan cukai di UK. Kajian ini mempunyai implikasi penting kepada pihak berkuasa percukaian kerana ia mencadangkan ciri-ciri CEO sebagai faktor penentu dalam analisis risiko pengelakan cukai. Hasil kajian ini juga dapat dimanfaatkan pihak pengurusan dan badan pengarah dalam menentukan faktor-faktor pertukaran CEO.*

*Kata kunci: Perancangan cukai; ciri asal CEO; tempoh perkhidmatan CEO terdahulu; Teori upper echelons*

### INTRODUCTION

Public awareness of the negative implications of corporate tax planning activities on the State's provision of public goods and services is now increasing in the UK and elsewhere as such activities are perceived as to be very costly to the economy. Concerns by Non-Governmental Organisations (NGO) have been expressed particularly in relation to budget deficit reduction programmes enacted in the recent years. For instance, following the Government's decision to reduce the welfare budget, UK Uncut suggests the UK Government should as well clampdown on tax avoidance (UK Uncut 2013). Similarly, the Trade Union Congress highlights the significant cost of tax planning

activities to the public purse (Trade Union Congress 2009). Christian Aid, in its tax campaign, highlights the needs to stop 'tax dodging' as 'it costs lives' (Christian Aid 2012). HM Revenue and Customs (HMRC) is also aggressively tackling tax avoidance through its anti-avoidance strategy (HMRC 2011). Yet, on the basis of its own estimates of a 'tax gap,' HMRC reveals an upward trend in the corporation 'tax gap,' i.e. the difference between the tax theoretically due and tax actually collected, for three consecutive years from 2009/2010 to 2011/2012 (HMRC 2012b; HMRC 2013).<sup>1</sup>

At the same time, tax planning activities have broader detrimental effects on the tax system, leading to, for instance, claims of social injustice due to poor income

re-distribution and a decline in public confidence in the country's tax system (Slemrod 2004). The tax avoidance practices of large UK firms have been the subject of significant coverage in the media and has remained at the top of professional, political and academic debates, typified by an outcry about an unfair tax system where the 'rich pay less' (HMRC 2011; Economia 2012; Shaxson & O'Hagan 2013). In the US, institutional shareholders, a proxy for corporate governance conduct, are also found to have moderating effect on the valuation implication of tax planning activities, for example reputational agency costs due to the increased of scrutiny of managerial actions (Desai & Dharmapala 2009). Agency cost has been discussed as referring to costs arises due to conflict of interest between the owner and the management of a firm (Jensen & Meckling 1976).

A neglected area of research concerns the influence of senior individuals on firms' tax planning behaviour. Such a direct or indirect individual effect can be examined by analysing firms' tax performance around the time of changes in senior management i.e. at the time of succession. This is in line with upper echelon theory that explains individual characteristics of senior executives as one of the contributing factors to the organisational outcome (Carpenter, Geletkanycz & Sanders 2004). Based on the upper echelons perspective (Hambrick & Mason 1984), which focuses on the central role of senior executives cognitions, values, and perceptions in shaping major organisational outcomes (Carpenter et al. 2004), it has been argued that the characteristics of a succession has important consequences (Shen & Cannella 2002). In particular, the performance effects of inside CEOs may vary from those of outsiders due to differences in perspective and ability to formulate appropriate strategic changes. The influence of a CEO can also be affected by the 'legacy' of a departing CEO through organisational inertia and disruption surrounding the succession (Shen & Cannella 2002). Although it is hard to imagine a chief executive officer (CEO) having complete and individual direct effect on a firm's tax matters, he/she, however, can provide inputs and indirectly influence different functional areas of the firm (including tax planning) when setting the 'tone at the top' (Dyreg, Hanlon & Maydew 2010).

In a similar perspective, although accountants play important roles in the firm tax affairs, CEO can provide input to the "final say" on firm tax planning decisions, which implies individual direct or indirect influence on firm tax matters. Therefore, given the direct or indirect significant and ultimate influence of the CEO on firm tax matters as discussed by Dyreg et al. (2010), the particular CEO characteristics are the main focus of this study. This study, therefore aims to investigate whether CEO origin (insider or outsider) and departing CEO tenure explain the corporate tax planning levels.<sup>2</sup> A sample of non-financial firms listed on the London Stock Exchange was examined with respect to the period 2005 to 2011. Further detailed discussions on the sample selection and period are provided in the Research Design section of this

paper. The individual CEO, statutory tax rates differences, and current and deferred tax data was hand-collected from the company annual reports while other financial information was obtained from *Datastream*. In line with Zajac (1990) and Ocasio (1999), we define an inside CEO as the CEO who has been promoted within the firm whilst an outsider is defined as an executive who is appointed from outside the firm.

This paper proceeds as follows. In the next section, we present a review of related literature on CEO origin, departing CEO tenure and tax planning. The following section presents the research design and this is followed by the results of the empirical analysis. The final section outlines the outcome of further tests and the conclusions and implications are discussed in the last section.

#### CEO ORIGIN AND DEPARTING CEO TENURE EFFECTS ON TAX PLANNING

Tax planning is defined as activities by taxpayers to effectively reduce their tax burden to generate tax benefits either in terms of cash flows, after tax returns or shareholder wealth (Abdul Wahab & Holland 2012). Although one might argue that tax planning can be simply referred to tax minimisation strategies, the optimal objective of tax planning should be to maximise after tax returns as the minimisation aim can induce non-tax costs for example reduction in asset values and equity prices (Scholes & Wolfson 1992). Therefore, tax planning can be referred to activities to reduce tax liability whilst increasing the after tax returns.

Despite a growing number of studies on the effects of corporate governance on tax planning within the UK settings (for example, Sikka & Hampton 2005; Freedman 2008; Abdul Wahab & Holland 2012), little attention has been paid on the influence of the senior executive on a firm's tax matters. Throughout the history of the study of organisations, the 'management style' of executives is seen to be a key factor in explaining a firm's strategic decision-making process (Bertrand & Schoar 2003; Malmendier & Tate 2005; Bamber, Jiang & Wang 2010). Applying this concept to tax planning, Hanlon and Heitzman (2010) question whether managerial effects are relevant to a firm's tax aggressiveness. In their study of US executive turnover data, Dyreg et al. (2010) document evidence of a significant individual executive role on the extent of a firm's tax planning level. An individual's specific 'management style' and characteristics, for example overconfidence (Malmendier & Tate 2005), incentive expectation (Desai & Dharmapala 2006), disclosure preference (Bamber et al. 2010), talents and ability (Kaplan, Klebanov & Sorensen 2012), and integrity (Law & Mills 2013), underpin this finding.

Taxation studies to date, however, have tended to focus on the effects of executives, who are currently in post, thus leaving aside the issue of the influence of executive dynamics and have examined the role and mindset of executives primarily from an agency perspective

(Dyreg et al. 2010; Brown & Drake 2012; Richardson, Taylor & Lanis 2013). For example, corporate governance studies have consistently found a negative relationship between CEO turnover and firm performance implying that the turnover is the result of the board's attempt to penalise underperformed CEOs (Cosh & Hughes 1997; Conyon 1998; Conyon & Nicolitsas 1998). CEOs are therefore primarily conceptualised as economic and 'formal' rational agents whose interests are inherently divergent from the interests of the principal and as such, boards and other corporate governance mechanisms ensure that they align their interests to those of shareholders. However, the assumptions regarding managerial actions in upper echelons (UE) theory (Hambrick & Mason 1984) are less deterministic. The UE perspective contends that strategic choices and resulting performance outcomes are influenced by the cognitions, values and perceptions of these powerful actors. In this respect, Carpenter et al. (2004) contends that values and perceptions are psychological constructs and when executives are confronted with business and organisational challenges to address in a limited time period and with little or too much information, their perceptions of these challenges are filtered and interpreted through cognitive bases and values. As a result, strategic choices are typically the consequences of a 'bounded rationality' model rather than the 'formal rationality' assumptions germane to agency-based perspectives. In an attempt to reflect the inherently unobservable constructs of cognitive bases and values, the UE literature has relied on observable managerial characteristics, such as age, functional background, educational experiences, and our variable of interest, CEO origin (insider or outsider), deemed to be an important one in succession studies (Shen & Cannella 2002).<sup>3</sup>

Therefore, in line with Dyreg et al. (2010), who find evidence on significant influence of individual executive role on firm tax planning level, this study supports the contention that CEO can have direct and indirect influences on the firm tax affairs, including based on CEO origin and departing CEO tenure as outsiders are found to have a negative relationship with the incidence of tax aggressiveness (Lanis & Richardson 2011). Although accountants possess tax knowledge of the firm and hence able to provide advices on tax planning to the firm management, the CEO can also provide input to influence the "tone at the top" (Dyreg et al. 2010), including the decisions on firm tax planning levels.

Given the access to firm specific knowledge and a strategic intention to maintain firm performance and based on the assumption that insiders are only appointed for ensuring the continuity of good performance, an inside CEO (i.e. who has been promoted within the firm) may outperform an outsider, i.e. an executive who is appointed from outside the firm, whilst the reverse may arise, typically as a result of poor firm performance and a strategic intention to initiate change (Zajac 1990; Ocasio 1999).

However, the link between CEO origin and tax planning may be more equivocal. A firm's management may show a preference towards increasing the level of tax planning activities due to their perceived positive effects on the firm's after-tax return (Scholes & Wolfson 1992).<sup>4</sup> By possessing firm specific knowledge and frequent exposure to the firm's board, insiders may be categorised as risk takers (Zajac 1990) and thereby are inclined to enter into more and, therefore more riskier, tax planning activities. Alternatively, inside CEOs, may behave adversely towards tax planning activities given their experience-based knowledge of firm resources and strategic administration (Zhang & Rajagopalan 2010) as tax planning activities entail costs and reputational risks due to their obfuscation characteristic (Desai & Dharmapala 2009). This implies a passive attitude by insiders towards tax planning activities, possibly to avoid the potential negative consequences of organisational disturbance.

The position with regards to outsiders is similarly equivocal. The outsiders may be aggressive in conducting tax planning activities due to their industry-related experience and knowledge of resources and capabilities in initiating strategic change (Zhang & Rajagopalan 2010) which raise the outsiders' confidence to predict the potential risks of change (Shen & Cannella 2002) and reduce the disruptive effect of strategic change (Zhang & Rajagopalan 2010). From the organisational inertia perspective, the outsiders, however, may behave differently in conducting tax planning activities to avoid failure in organisational changes. In a similar vein, as suggested by Zhang and Rajagopalan (2010), outside CEOs can engage in a gradual and non-disruptive change (adaptive effect) which is accepted by the internal management and other stakeholders. This may be due to the need to address urgent performance issues and/or because the outside CEO can claim to have a 'fresh outlook' that is not driven by vested interests. In such cases, outside CEOs may be as well not inclined to engage in higher tax planning levels. Finally, a dearth in firm specific knowledge (Conyon 2006), risk-averse attitudes (Gillan, Hartzell & Parrino 2009) and limited support from other senior executives (Friedman & Saul 1991) are the underlying factors that can restrict outside CEOs from fully engaging with tax planning activities.<sup>5</sup> Therefore, it is hypothesised that:

H<sub>1</sub> There is a significant relationship between CEO origin and firm tax planning level.

Current CEO performance can also be influenced by the departing CEO's legacy as the CEO tenure is positively related to the persistence of status quo and organisational inertia (Finkelstein & Hambrick 1990). Shen and Cannella (2002) argue that both extremely long- and short-tenured departing CEOs can have negative implication on the successors' operational performance as long-tenured CEOs relate to strategic persistence, which implies reluctance to changes. On the other hand, the short-tenured CEOs restrict the ability of the successors to establish reliable and accountable organisational routines due to disruptions



caused by frequent replacements. In line with the evidence of an inverted U-shaped relationship over time between exit CEO tenure and post-succession operational performance (Shen & Cannella 2002), departing CEO tenure can be expected to have a non-monotonic effect on the firms' tax planning level.<sup>6</sup> As extremely short- and long-tenured departing CEOs are related to very frequent CEO replacements and strong organisation inertia respectively, tax planning is expected to be non-linearly related to departing CEO tenure. From the classical economic perspective, where tax planning is perceived to increase firm's after-tax return and therefore market value over time, the relationship is expected to be a U-shaped pattern whilst an inverted U-shaped is predicted if the presumption is rooted in arguments concerned with the risks and reputational costs of tax planning. Therefore, it is hypothesised that:

H<sub>2</sub> There is a significant non-monotonic relationship between departing CEO tenure and firm tax planning level.

To further investigate whether the length of the departing CEO tenure moderates the CEO's decisions on firm tax planning activities, the departing CEO tenure is hypothesised to moderate the relationship between origin and tax planning level as follows:

H<sub>2a</sub> There is a significant moderating influence of departing CEO tenure on the relationship between CEO origin and firm tax planning level.

In summary, CEO can directly and indirectly influence the firm strategic tax decision as they can provide input when setting "the tone at the top" (Dyreg et al. 2010). Based on previous studies that investigate the relationship between tax planning and corporate governance, management characteristics are found to have a significant relationship with firm tax matters (Desai & Dharmapala 2009; Dyreg et al. 2010; Lanis & Richardson 2011). Given differences of performance between insiders and outsiders (Friedman & Hedlund 1991; Shen & Cannella 2002; Conyon 2006; Gillan et al. 2009; Zhang & Rajagopalan 2010), CEO origin is hypothesised as to have a significant relationship with firm tax planning level. Following the arguments that the departing CEO's legacy can influence the current CEO performance (Finkelstein & Hambrick 1990; Shen & Cannella 2002), this study hypothesises a significant relationship between departing CEO tenure and firm tax planning level. However, this relationship is predicted to be in non-monotonic direction due to differences of influences of extremely short- and long-tenured departing CEOs on firm performance (Shen & Cannella 2002). Further, as the departing CEO is argued to influence firm tax planning level through the current CEO, this study also hypothesises a significant moderating influence of departing CEO tenure on the relationship between CEO origin and firm tax planning level.

## RESEARCH DESIGN

### TAX PLANNING MEASURE

In the absence of publicly available firm tax return data, previous studies use several proxies to measure tax planning, for example, book-tax differences (BTD) (Desai & Dharmapala 2009), effective tax rates (ETR) (Dyreg et al. 2010) and differences between statutory (STR) and effective tax rates in profit terms (TP) (Abdul Wahab & Holland 2012). Information to derive these measures is available in firms' tax expense and reconciliation footnotes as required by *IAS 12 Income Taxes* (IASB 2010). These measures are related and only differ in their units of measure. BTD and TP are stated in pre (gross) and post (net) tax monetary terms respectively whereas ETR is measured in percentage terms and therefore ignores scale. In the US, the absence of information required in grossing-up foreign tax expenses or credits can result in measurement error when using BTD (Hanlon 2003). Fortunately, *IAS 12 Income Taxes* (IASB 2010) specifically discloses the effect of overseas tax thereby reducing measurement error in use of BTD and TP in a UK setting (Abdul Wahab & Holland 2012; Abdul Wahab & Holland 2015). Compared to ETR, TP (Abdul Wahab & Holland 2012) measures the magnitudes of tax planning in terms of how much the ETR varies from the STR instead of the tax burden per-se. This is useful when the STR varies across years. The TP measure can also avoid any potential grossing-up error. Therefore, following Abdul Wahab and Holland (2012), this study measures tax planning (TP) as the difference between STR and ETR expressed by the following equations:

$$ETR = \frac{CTE}{PBT} \quad (1)$$

Where ETR = Effective tax rates, CTE = Current tax expense and PBT = Profit before tax. This measure of ETR has been used by a number of tax burden studies, for example, Zimmerman (1983), Holland (1998) and Dyreg, Hanlon and Maydew (2008). By subtracting the ETR from the STR, and multiplying the difference with PBT, the TP can be derived as in the following equation:

$$TP = PBT * (STR_{uk} - ETR) \quad (2)$$

Where TP = Tax planning and STR<sub>uk</sub> = UK statutory main corporate tax rate. A positive value of the of the difference between UK corporate tax rates and effective tax rates (STR<sub>uk</sub> - ETR) implies tax benefits arising from tax planning activities by profit-making firms.<sup>7</sup>

### REGRESSION EQUATIONS

To investigate whether CEO origin and departing CEO tenure influence the extent of firm tax planning, we estimate the following model as our baseline regression:

$$TP_i = \alpha_0 + \sum_k CONTROL_i^k + \alpha_{k+1} CORIG_i + \alpha_{k+2} DTEN_i + \varepsilon_i \quad (\text{model 1})$$

Where TP is tax planning measure derived from equation (2), CORIG is a dichotomous variable for CEO origin, i.e. '1' for outside CEO and '0' otherwise. Following Gillan et al. (2009), we categorised CEOs as outsiders if they had joined the firm from other organisations less than one year prior to their appointments as CEOs. DTEN is departing CEO tenure expressed in months, capturing the magnitude of previous CEO services (Shen & Cannella 2002; Wang,

Davidson III & Wang 2010) and CONTROL are the known determinants previously found to be influencing tax planning levels, CAPINT for capital intensity (Frank, Lynch & Rego 2009), IND for industry (Abdul Wahab & Holland 2012), EM for earnings management (Hanlon 2005), LEV for leverage (Mills, Erickson & Maydew 1998) and FS for foreign sales (Rego 2003). The variable measurements are explained in Table 1.

TABLE 1. Variables

Variable	Description	Measurement
TP	Tax planning	(PBT*(STR-ETR))/total assets
CORIG	CEO origin	Coded as 1 for outsiders, 0 otherwise
DTEN	Departing CEO tenure	Tenure of previous CEO (in month)
CAPINT	Capital intensity	Ratio of gross machinery and equipment to total assets
IND	Industry	Coded as 1 for each industry category, 0 otherwise
EM	Earnings management	(PBT – cash flow from operating activities)/total assets
LEV	Leverage	Long-term debts/total assets
FS	Foreign sales	Percentage of foreign sales over net sales

To examine the non-linear effects of DTEN, model 1 is extended to include squared DTEN variable (DTENSQ) as expressed in model 2.

$$TP_i = \alpha_0 + \sum_k CONTROL_i^k + \alpha_{k+1} CORIG_i + \alpha_{k+2} DTEN_i + \alpha_{k+3} DTENSQ_i + \varepsilon_i \quad (\text{model 2})$$

The next model is to examine whether the length of the departing CEO tenure moderates the CEO's decisions on firm tax planning activities. To assess this moderating effect, an interaction variable between CEO origin and departing CEO tenure (CORIG\_DTEN) is introduced as in model 3:

$$TP_i = \alpha_0 + \sum_k CONTROL_i^k + \alpha_{k+1} CORIG_i + \alpha_{k+2} DTEN_i + \alpha_{k+3} CORIG_i \cdot DTEN_i + \varepsilon_i \quad (\text{model 3})$$

Similar to model 2, model 3 is extended to include DTENSQ (model 4) and CORIG\_DTENSQ (model 5) to examine the non-linear effects of departing CEO tenure.<sup>8</sup> Variables TP, CAPINT, EM and LEV in all models are deflated by total assets to control for any potential scaling effects (Horton 2008; Barth & Clinch 2009; Abdul Wahab & Holland 2015).

#### SAMPLE AND DATA

Our sample is drawn from the non-financial London Stock Exchange listed firms in the Thomson Reuters' *Datastream* database for a seven-year period (2005–2011). Financial firms were excluded to control for variations in accounting regulations and taxation rules and hence justifying the inclusion of only non-financial firms as the sample of this study. The year 2005 is to reflect the first year of the IAS requirement on financial reporting in the

UK. Given an increased concern over tax avoidance, the HMRC has been aggressive in combating the activities. In 2012, the authority has developed a programme as an action to battle tax avoidance including considering to introduce General Anti-Avoidance Rule and increasing penalties on promoters of avoidance schemes who failed to disclose them to the authority. A consultation document on this, namely "*Lifting the Lid on Tax Avoidance Schemes*," has been made available in 2012 (HMRC 2012a). Therefore, the year 2011 was selected to control the effects of the programme on tax planning activities over the sample period and to avoid issues of bias in the tax planning measure across years. To reflect the firms' ability and consistency in conducting tax planning, firms that report a loss before tax at any stage of the sample period were excluded (Mills et al. 1998) and this can also control for confounding effects when calculating the ETR. Firms with an extreme value of ETR, which is defined as ETR of more or equal to +1 or less or equal to -1, were excluded to control for non-recurring factors (Phillips 2003). We further eliminated firms with negative book value of equity to control for limited economic meaning, abandonment value and expected future normal earnings (Collins, Pincus & Xie 1999). We also filtered the sample to exclude firms in the oil and gas sector to avoid sectorial complications in calculating TP variable.<sup>9</sup> Finally, to ensure strong-balanced panel data, we excluded firms with incomplete data from *Datastream*, changes of accounting year-end and incomplete annual report. This process results into 155 firms (1,085 firm-years). Table 2 summarises the sample selection process of this study.

Since tax data is not machine readable, we hand-collect our statutory tax rates differences and current and deferred tax expense data from the corporate annual reports. Similarly, due to limited corporate governance

TABLE 2. Sample selection

Details	n
Non-financial public listed firms (listed throughout 2005-2011)	1065
Incomplete data in Datastream	(302)
Loss-making at least in one year	(568)
Firms with negative book value of equity	(8)
Change of accounting year-end	(3)
At least one year of annual report is not available	(2)
Extreme value of ETR	(20)
Oil and gas category of firms	(7)
Initial sample	155

data in a machine readable format, we manually collect CEO information from the *Director's Report* within the corporate annual reports. We obtain other financial data from Thomson Reuters' *Datastream*.

#### DESCRIPTIVE STATISTICS

Following an outlier diagnostic test, 154 observations were excluded to estimate the above regression models,

resulting into 931 observations.<sup>10,11</sup> The majority of the firms in the sample are in the industrials sector (42.86%) and this is followed by consumer services (20.30%), consumer goods (13.53%), basic materials and technology (7.52% each category), health care (4.51%), utilities (2.26%) and telecommunications (1.50%). Table 3 presents the descriptive statistics of the final sample of 133 firms. The profit before tax of the firms ranged from £0.3 million to £8,425 million. On average, the ETR of the sample throughout the seven-year period is 28% resulting in a TP of approximately £6.4 million.

The CEO data indicates that the number of insiders outweighs the outsiders, 70.35% are insiders compared to 29.65% being outsiders, implying that promotion of CEOs in UK large firms is likely to occur from within the organisations. Based on Table 3, there is a wide range of DTEN from 0 to 39 years with average exit tenure of eight years. This is relatively lower compared to evidence from US studies (Shen & Cannella 2002; Wang et al. 2010), providing further evidence to Conyon, Core and Guay's (2011) findings that EU firms exhibit shorter CEO tenure than their US counterparts. This comparison may also imply that the CEO positions are riskier in the UK.

TABLE 3. Descriptive statistics

n = 133	Mean	Min	Max	Standard deviation
PBT (£m)	380.2908	0.2920	8425.0000	1087.1620
Total assets (£m)	3529.3080	8.6170	48200.0000	7865.4680
FS	44.3259	0.0000	118.0800	35.8825
ETR	0.2824	-0.4281	0.9486	0.1179
TP	0.0009	-0.0249	0.0328	0.0077
DTEN	94.9893	0.0000	468.0000	94.0035
CAPINT	0.2558	0.0000	1.6535	0.2487
EM	-0.0020	-0.1962	0.5468	0.0553
LEV	0.1625	0.0000	0.6928	0.1519
TPPD	0.0000	-0.0287	0.0749	0.0069
TPTD	0.0011	-0.0575	0.0281	0.0066
TPSTRD	-0.0002	-0.0276	0.0217	0.0040

#### RESULTS

Following Belsley, Kuh and Welsch (1980), prior to the regression estimation, the models were assessed for multicollinearity using condition indices. The tests indicate insignificant multicollinearity in all cases with a maximum index of 20.74.<sup>12</sup> This is also in line with bivariate Pearson correlation coefficients between variables, which the highest coefficient is between CORIG and CORIG\_DTEN (0.6808), i.e. lesser than 0.9 (Hair et al. 2006), as presented by Table 4.

Table 5 reports the results of the estimations using a pooled cross-section OLS with adjusted standard errors.<sup>13</sup> This is to control for heteroscedasticity as the

Breusch-Pagan/Cook-Weisberg and White tests (White 1980) indicate significant heteroscedasticity issue with significant chi-squared statistics, i.e.  $p < 0.05$  and  $p < 0.01$  respectively, across all models as shown in Table 5.

Results of Model 1, 2, 3, 4 and 5 are respectively presented by columns 2, 3, 4, 5 and 6 of Table 5. CORIG is significantly ( $p < 0.01$ ) and positively related to TP in all models suggesting outside CEOs are more likely to undertake more tax planning than the insiders. These results support hypothesis 1 that predicts a significant relationship between CEO origin and firm tax planning level. This finding is consistent with the risk taking attitudes of outside CEOs due to their limited knowledge of firm capabilities which restricts them from accurately

TABLE 4. Pearson correlation

	TP	CORIG	DTEN	CORIG_DTEN	CAPINT	EM	LEV	FS
TP	1.0000							
CORIG	0.0962***	1.0000						
DTEN	0.0160	-0.0425	1.0000					
CORIG_DTEN	-0.0126	0.6808***	0.3114***	1.0000				
CAPINT	0.1363***	-0.0182	0.0713**	-0.0118	1.0000			
EM	0.083**	-0.0566*	0.116***	0.0627*	-0.1092***	1.0000		
LEV	0.0886***	0.0265	-0.1455***	-0.0803**	0.0663**	-0.2253***	1.0000	
FS	-0.0753**	-0.0725**	-0.0554*	-0.0901***	0.0005	0.0923***	0.0642**	1.0000

\*\*\*, \*\* and \* indicate significance at  $p < 0.01$ ,  $p < 0.05$  and  $p < 0.10$  respectively.

gauging the potential risks of the activities (Shen & Cannella 2002; Zhang & Rajagopalan 2010). This is also in line with UE's arguments on the influence of the CEO's origin (Hambrick & Mason 1984) since outsiders are perceived to be more confident in decision making due to their knowledge specifically of the industry and of the market in general, and access to professional and social networks (Zahra & Pearce 1989; Hart 1995). The positive attitude of outsiders towards undertaking tax planning activities also lends credence to the argument that tax planning has a perceived incremental wealth effect (Scholes & Wolfson 1992) when the firms are led by outside CEOs.

Departing CEO tenure is not statistically significant ( $p > 0.10$ ) across all models except in Model 3 when the interaction variable of CORIG and DTEN (CORIG\_DTEN) is introduced. Following the negative and significant ( $p < 0.01$ ) CORIG\_DTEN variable in Model 3, 4 and 5, the results suggests the relationship between DTEN and TP is partially explained (Kennedy 2003) by CORIG where CORIG outweighs the DTEN in all  $v$  observations. This supports hypothesis 2<sub>a</sub> that predicts significant moderating influence of departing CEO tenure on the relationship between CEO origin and firm tax planning level. This result indicates that tax planning attitude of outside CEOs can be moderated by the influence of departing CEO tenure due to strong organisational inertia and status quo as hypothesised by Finkelstein and Hambrick (1990).

To assess potentially non-linear influence of DTEN on tax planning levels, Model 2, 4 and 5 were estimated with the inclusion of DTENSQ. The variable, however, is not significant in all models, suggesting limited effect of departing CEO tenure on firm tax planning level in both linear and non-linear predictions. The findings therefore fail to support hypothesis 2 that predicts a significant non-monotonic relationship between departing CEO tenure and firm tax planning level.

Control variables of firm specific characteristics, i.e. capital intensity (CAPINT), earnings management (EM), leverage (LEV) and foreign sales (FS), are significant and consistent in all five models. As expected, capital intensity is positively related to tax planning as high utilisation of capital will attract high level of capital allowance that in turn will increase the TP. Similarly, as

taxable income is determined using accrual principle, higher EM leads to higher TP. This is in line with Frank et al.'s (2009) arguments that firms that are aggressive in financial reporting are also aggressive in tax reporting. This is also consistent with leverage where high level of leverage results to high interest tax shield as captured by positive relationship between TP and LEV. The proxy of non-UK sales, FS, on the other hand, is negatively related to TP suggesting a positive association between UK-sales and firm tax planning level.

In summary, this study finds a significant relationship between CEO origin and firm tax planning level of which the outsiders are found to involve more in tax planning. This could be due to risk taking attitude and limited knowledge of the outsiders on firm resources (Shen & Cannella 2002; Zhang & Rajagopalan 2010). Outsiders could also be more confident to undertake tax planning due to their industrial knowledge and social networking (Zahra & Pearce 1989; Hart 1995). Departing CEO tenure, on the other hand, is not significant in explaining firm tax planning level. However, consistent with the expectation, this study finds significant moderating influence of departing CEO tenure on the relationship between CEO origin and firm tax planning level. This supports Finkelstein and Hambrick's (1990) arguments on strong organisation inertia and status quo of the departing CEO influence on the performance of the current CEO.

## CONCLUSIONS

We hypothesise and find a significant and robust relationship between CEO origin and moderating influence of departing CEO tenure on the extent of firm tax planning activities. Our results can be summarised as follows. The outside vs are associated with higher level of corporate tax planning than the inside CEOs. Departing CEO tenure is found to negatively moderate the relationship between tax planning and CEO origin.

Specifically, the outsiders are found to be associated with higher level of corporate tax planning than the insiders which is in line with the UE's arguments of outsiders' experience and knowledge specifically of the industry and market in general to gauge potential risks of the



TABLE 5. Regression estimations

Dependent variable = TP	Model 1	Model 2	Model 3	Model 4	Model 5
CORIG	0.0017 2.96***	0.0018 3.11***	0.0043 5.20***	0.0042 5.13***	0.0047 3.78***
DTEN	0.0001 0.84	-0.0001 -1.20	0.0001 2.63***	0.0001 0.58	0.0001 0.69
CORIG_DTEN			-0.0001 -4.43***	-0.0001 -4.27***	-0.0001 -1.78*
DTENSQ		0.0001 1.61		0.0001 0.57	0.0001 0.41
CORIG_DTENSQ					0.0001 0.59
CAPINT	0.0038 3.12***	0.0038 3.11***	0.0038 3.18***	0.0038 3.17***	0.0038 3.18***
EM	0.0141 2.32**	0.0137 2.25**	0.0160 2.50**	0.0158 2.47**	0.0158 2.47**
LEV	0.0050 2.73***	0.0052 2.84***	0.0046 2.52**	0.0047 2.56**	0.0047 2.55**
FS	-0.0001 -2.41**	-0.0001 -2.01**	-0.0001 -2.32**	-0.0001 -2.26**	-0.0001 -2.23**
Cons	-0.0041 -3.74***	-0.0035 -3.11***	-0.0045 -4.18***	-0.0043 -3.87***	-0.0043 -3.89***
Industry dummy	Yes	Yes	Yes	Yes	Yes
Year dummy	Yes	Yes	Yes	Yes	Yes
Turning point of DTEN	N/A	133.6234	N/A	-189.5408	-314.2692
R-squared	10.99%	11.27%	12.98%	13.01%	12.70%
F-statistic	5.99 (19)***	5.71 (20)***	6.88 (20)***	6.61 (21)***	6.35 (22)***
Partial F-statistic (Block: DTENSQ)	N/A	2.58	N/A	0.33	0.33
Partial F-statistic (Block: CORIG_DTENSQ)	N/A	N/A	N/A	N/A	0.35
Breusch-Pagan ( $\chi^2$ )	5.54**	5.54**	5.88**	6.15**	6.18**
White ( $\chi^2$ )	249.74***	249.74***	236.004***	252.96***	262.00***
n	931	931	931	931	931

Notes: Italicised figures represent cross-section Huber-White adjusted t-statistics.

\*\*\*, \*\* and \* indicate significance at  $p < 0.01$ ,  $p < 0.05$  and  $p < 0.10$  (two-tailed) respectively.

Industry and year dummy coefficients are not reported in the interest of economy.

The turning point of DTEN is determined based on  $_{b}[\text{DTENSQ}]/2_{b}[\text{DTEN}]$ , where b is the respective coefficients for the DTEN and DTENSQ (Stata 2001).



activities (Zahra & Pearce 1989; Hart 1995). This result, in line with Shen and Cannella (2002) and Zhang and Rajagopalan (2010) also highlights the risk-taking attitude of outsiders in making decisions related to corporate tax planning with potentially disruptive effects. Departing CEO tenure is found to have negative moderating influence on the relationship between tax planning and CEO origin, suggesting the likelihood of the outsiders (insiders) to undertake (relinquish) tax planning is conditioned by the influence of previous CEO tenure due organisational inertia and status quo of the departing CEO (Finkelstein & Hambrick 1990). These provide additional findings to support UE in explaining individual senior executive effect on firm strategic decisions, particularly relating to the extent of firm's involvement in corporate tax planning. These results also can imply social impact towards the firms in terms of CEO nominations or appointments in relation to a firm's tax planning objectives. Specifically, firms with intentions to involve in high extents of tax planning should consider appointing outsiders but this should also take into account the influence of previous CEO on the status quo of the firms.

In understanding CEO influence on tax planning, future studies should consider the individual CEO's fixed effect in explaining firm tax planning level. This requires a longer sample period as we have observed limited movements of CEOs within our sample which restricts such analysis to be performed. This paper contributes to the taxation literature by providing additional evidence on the effects of CEO succession on firms' tax planning activities which complements the work on the influence of corporate governance and board characteristics. This paper provides further evidence to support UE theory, in particular relating to the influence of CEO characteristics on firm tax planning activities, from a perspective that is not a priori limited to agency-based explanations of managerial behaviour. From a UE perspective and a general corporate governance point of view, the findings are of interest to boards and their nomination/appointment committees since this study highlights the multi-faceted diverse consequences of CEO appointments. Furthermore, this paper contributes to the debate and policy implications of corporate tax avoidance by showing how the CEO's origin and tenure might influence the incidence of tax planning. This paper also contributes to policy in terms of providing an indication to tax authorities that CEO origin and departing CEO details can be relevant factors in their tax avoidance-risk assessment exercise.

#### ENDNOTES

- <sup>1</sup> Corporation tax gaps for 2009/2010, 2010/2011 and 2011/2012 are £3.8 billion, £4.1 billion and £4.7 billion respectively.
- <sup>2</sup> Following Abdul Wahab and Holland (2012), the term tax planning is referred to any effort to effectively generate tax benefits.
- <sup>3</sup> The broader term used in the management literature is 'successor origin' (e.g. Shen & Cannella 2002).

- <sup>4</sup> Scholes-Wolfson framework terms such activities as effective tax planning activities, i.e. after incorporating all costs, all parties and all taxes.
- <sup>5</sup> This also reflects upper echelons theory's assumptions of varying extent of the entire top management team's support in making decisions.
- <sup>6</sup> Shen and Cannella (2002) also argue that a very short-tenured departing CEO signifies failure to consolidate leadership and a long tenure implies disruptions for the successor to accomplish their strategic changes goals.
- <sup>7</sup> To avoid potential confounding effects in calculating ETR, the sample is restricted to profit-making firms only.
- <sup>8</sup> Results of diagnostic analyses are as discussed in the descriptive statistics and results sections.
- <sup>9</sup> In addition to the main corporate tax rates, oil and gas firms are also subject to ring-fence corporation tax, supplementary charge and petroleum revenue tax.
- <sup>10</sup> The outliers are determined based on studentized residual  $> |2|$  (Hair, Black, Babin, Anderson & Tatham 2006; UCLA 2013). In addition to this exclusion, the models were estimated using regression with robust standard errors to further control heteroscedasticity and observations with large leverage or influence. However, estimations using the full sample, 1,085 observations, were also conducted and the results are qualitatively similar to those using 931 observations.
- <sup>11</sup> To assess potentially extreme influential observations, the models were also estimated using robust regression method. The iteration process indicates no further exclusion as the Cook's Distance is lesser than 1 and as the robust regression does control for heteroscedasticity, the results are reported based on regressions with robust standard errors option (Baum 2006, UCLA 2013). Qualitative identical results to the robust standard error estimations are found when the data, both 1,085 and 931 observations, was analysed using robust regression method.
- <sup>12</sup> Belsley, Kuh and Welsch (1980) suggest a critical value of 30 with a variance-decomposition proportion of 0.5.
- <sup>13</sup> Since the CEO data (CORIG and DTEN) of each firm has limited variations throughout the periods, a panel data regression is not suitable to be utilised (Baum 2006). We, however, have included year dummies in all models to control for the other unobserved time-variant trends.

#### ACKNOWLEDGEMENT

The authors are grateful for the research funding from the Faculty of Business and Law, University of Southampton and helpful comments from seminar participants at Accounting Conference, Southampton Management School, University of Southampton (2013), British Accounting and Finance Association Conference, London (2014) and Tax Research Network Annual Conference, London (2014).

#### REFERENCES

- Abdul Wahab, N.S. & Holland, K. 2012. Tax planning, corporate governance and equity value. *British Accounting Review* 44(2): 111-124.
- Abdul Wahab, N.S. & Holland, K. 2015. The persistence of book-tax differences. *British Accounting Review* 47(4): 339-350.

- Bamber, L.S., Jiang, J. & Wang, I.Y. 2010. What's my style? The influence of top managers on voluntary corporate financial disclosure. *Accounting Review* 85(4): 1131-1162.
- Barth, M.E. & Clinch, G. 2009. Scale effects in capital markets-based accounting research. *Journal of Business Finance & Accounting* 36(3 & 4): 253-288.
- Baum, C.F. 2006. *An Introduction to Modern Econometrics using Stata*. Texas: Stata Press.
- Belsley, D., Kuh, E. & Welsch, R.E. 1980. *Regression Diagnostics: Identifying Influential Data and Sources of Collinearity*. New York: John Wiley & Sons.
- Bertrand, M. & Schoar, A. 2003. Managing with style: The effect of managers on firm policies. *Quarterly Journal of Economics* 118(4): 1169-1208.
- Brown, J. & Drake, K. 2012. Network ties among low-tax firms. *Proceeding – American Taxation Association Midyear Meeting: JATA Conference*.
- Carpenter, M.A., Geletkanycz, M.A. & Sanders, W.G. 2004. Upper echelons research revisited: Antecedents, elements, and consequences of top management team composition. *Journal of Management* 30(6): 749-778.
- Christian Aid. 2012. Tax dodging costs lives. Available at <http://www.christianaid.org.uk/ActNow/trace-the-tax/>
- Collins, D.W., Pincus, M. & Xie, H. 1999. Equity valuation and negative earnings: The role of book value of equity. *The Accounting Review* 74(1): 29-61.
- Conyon, M.J. 1998. Directors' pay and turnover: An application to a sample of large UK firms. *Oxford Bulletin of Economics and Statistics* 60(4): 485-507.
- Conyon, M.J. 2006. Executive compensation and incentives. *Academy of Management Perspectives* 20(1): 25-44.
- Conyon, M.J., Core, J.E. & Guay, W.R. 2011. Are US CEOs paid more than UK CEOs? Inferences from risk-adjusted pay. *Review of Financial Studies* 24(2): 402-438.
- Conyon, M.J. & Nicolitsas, D. 1998. Does the market for top executives work? CEO pay and turnover in small UK companies. *Small Business Economics* 11(2): 145-154.
- Cosh, A. & Hughes, A. 1997. Executive remuneration, executive dismissal and institutional shareholdings. *International Journal of Industrial Organization* 15(4): 469-492.
- Desai, M.A. & Dharmapala, D. 2006. Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics* 79(1): 145-179.
- Desai, M.A. & Dharmapala, D. 2009. Corporate tax avoidance and firm value. *Review of Economics and Statistics* 91(3): 537-546.
- Dyregang, S., Hanlon, M. & Maydew, E.L. 2008. Long-run corporate tax avoidance. *Accounting Review* 83(1): 61-82.
- Dyregang, S., Hanlon, M. & Maydew, E.L. 2010. The effects of executives on corporate tax avoidance. *Accounting Review* 85(4): 1163-1189.
- Economia. 2012. Tax the rich: The Minefield of High-Level Taxation. Available at <http://economia.icaew.com/finance/tax-the-rich>
- Finkelstein, S. & Hambrick, D.C. 1990. Top-management-team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly*: 484-503.
- Frank, M.M., Lynch, L.J. & Rego, S.O. 2009. Tax reporting aggressiveness and its relation to aggressive financial reporting. *Accounting Review* 84(2): 467-496.
- Freedman, J. 2008. Financial and tax accounting: Transparency and "truth." In *Tax and Corporate Governance*, edited by W. Schon, 71-92. Berlin: Springer.
- Friedman, H.L. & Hedlund, D.E. 1991. Counselling skills training for adolescent health: A WHO approach to meet a global need. *International Journal for the Advancement of Counselling* 14(1): 59-69.
- Friedman, S.D. & Saul, K. 1991. A leader's wake: Organization member reactions to CEO succession. *Journal of Management* 17(3): 619-642.
- Gillan, S.L., Hartzell, J.C. & Parrino, R. 2009. Explicit versus implicit contracts: Evidence from CEO employment agreements. *Journal of Finance* 64(4): 1629-1655.
- Hair, J.F., Black, W.C., Babin, B.J., Anderson, R.E. & Tatham, R.L. 2006. *Multivariate Data Analysis*. 6th edition. New Jersey: Pearson Education Inc.
- Hambrick, D.C. & Mason, P.A. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review* 9(2): 193-206.
- Hanlon, M. 2003. What can we infer about a firm's taxable income from its financial statements? *National Tax Journal* 56(4): 831-864.
- Hanlon, M. 2005. The persistence and pricing of earnings, accruals, and cash flows when firms have large book-tax differences. *Accounting Review* 80(1): 137-166.
- Hanlon, M. & Heitzman, S. 2010. A review of tax research. *Journal of Accounting and Economics* 50(2): 127-178.
- Hart, O. 1995. Corporate governance: Some theory and implications. *Economic Journal* 105(430): 678-689.
- HMRC. 2011. Tackling tax avoidance. Available at [http://cdn.hm-treasury.gov.uk/2011\\_budget\\_taxavoidance.pdf](http://cdn.hm-treasury.gov.uk/2011_budget_taxavoidance.pdf)
- HMRC. 2012a. Lifting the lid on tax avoidance schemes. Available at <http://webarchive.nationalarchives.gov.uk/20140109143644/http://www.hmrc.gov.uk/avoidance/tax-avoidance-schemes.pdf>
- HMRC. 2012b. Measuring tax gaps 2012. Available at <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2012.pdf>
- HMRC. 2013. Measuring tax gaps 2013 edition. Available at <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2013.pdf>
- Holland, K. 1998. Accounting policy choice: The relationship between corporate tax burdens and company size. *Journal of Business Finance & Accounting* 25(3 & 4): 265-288.
- Horton, J. 2008. The value relevance of 'realistic reporting': Evidence from UK life insurers. *Accounting and Business Research* 37(3): 175-197.
- IASB. 2010. International Accounting Standard 12 "Income Taxes." Available at <http://www.ifrs.org/Documents/IAS12.pdf>
- Jensen, M.C. & Meckling, W.H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(4): 305-360.
- Kaplan, S.N., Klebanov, M.M. & Sorensen, M. 2012. Which CEO characteristics and abilities matter? *Journal of Finance* 67(3): 973-1007.
- Kennedy, P. 2003. *A Guide to Econometrics*. 5th edition. Oxford: Blackwell Publishing.
- Lanis, R. & Richardson, G. 2011. The effect of board of director composition on corporate tax aggressiveness. *Journal of Accounting and Public Policy* 30(1): 50-70.
- Law, K. & Mills, L.F. 2013. CEO integrity and tax avoidance. Working paper series, Tilburg University and University of Texas at Austin.

- Malmendier, U. & Tate, G. 2005. CEO overconfidence and corporate investment. *Journal of Finance* 60(6): 2661-2700.
- Mills, L.F., Erickson, M. & Maydew, E.L. 1998. Investment in tax planning. *Journal of the American Taxation Association* 20(1): 1-20.
- Ocasio, W. 1999. Institutionalized action and corporate governance: The reliance on rules of CEO succession. *Administrative Science Quarterly* 44(2): 384-416.
- Phillips, J. 2003. Corporate tax-planning effectiveness: The role of compensation-based incentives. *Accounting Review* 78(3): 847-874.
- Rego, S.O. 2003. Tax-avoidance activities of U.S. multinational corporations. *Contemporary Accounting Research* 20(4): 805-833.
- Richardson, G., Taylor, G. & Lanis, R. 2013. The impact of board of director oversight characteristics on corporate tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy* 32(3): 68-88.
- Scholes, M.S. & Wolfson, M.A. 1992. *Taxes and Business Strategy: A Planning Approach*. New Jersey: Prentice Hall.
- Shaxson, N. & O'hagan, E. 2013. A competitive tax system is a better tax system, the new economic foundation. [http://www.taxjustice.net/cms/upload/pdf/TJN\\_NEF\\_130418\\_Tax\\_competition.pdf](http://www.taxjustice.net/cms/upload/pdf/TJN_NEF_130418_Tax_competition.pdf)
- Shen, W. & Cannella, A.A. 2002. Revisiting the performance consequences of CEO succession: The impacts of successor type, postsuccession senior executive turnover, and departing CEO tenure. *Academy of Management Journal* 45(4): 717-733.
- Sikka, P. & Hampton, M.P. 2005. The role of accountancy firms in tax avoidance: Some evidence and issues. *Accounting Forum* 29(3): 325-343.
- Slemrod, J. 2004. The economics of corporate tax selfishness. *National Tax Journal* 57(4): 877-899.
- Stata. 2001. Analysis of the turning point of a quadratic specification. *Stata Technical Bulletin* 10(60): 18-20.
- Trade Union Congress. 2009. The missing billions the UK tax gap. Available at <http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf>
- UCLA. 2013. Stata web books – Regressions with Stata. <http://www.ats.ucla.edu/stat/stata/webbooks/reg/chapter2/statareg2.htm>
- UK Uncut. 2013. The Government's Line Lies. Available at <http://www.ukuncut.org.uk/about/cuts>
- Wang, H., Davidson III, W.N. & Wang, X. 2010. The Sarbanes-Oxley Act and CEO tenure, turnover, and risk aversion. *Quarterly Review of Economics and Finance* 50(3): 367-376.
- White, H. 1980. A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica: Journal of the Econometric Society* 48(4): 817-838.
- Zahra, S.A. & Pearce, J.A. 1989. Boards of directors and corporate financial performance: A review and integrative model. *Journal of Management* 15(2): 291-334.
- Zajac, E.J. 1990. CEO selection, succession, compensation and firm performance: A theoretical integration and empirical analysis. *Strategic Management Journal* 11(3): 217-230.
- Zhang, Y. & Rajagopalan, N. 2010. Once an outsider, always an outsider? CEO origin, strategic change, and firm performance. *Strategic Management Journal* 31(3): 334-346.
- Zimmerman, J.L. 1983. Taxes and firm size. *Journal of Accounting and Economics* 5(2): 119-149.

Nor Shaipah Abdul Wahab (corresponding author)  
Taylor's Business School  
Block E Room 9A.22  
Taylor's University  
No. 1, Jalan Taylor's, 47500 Subang Jaya, Selangor, MALAYSIA.  
E-Mail: [NorShaipah.AbdulWahab@taylors.edu.my](mailto:NorShaipah.AbdulWahab@taylors.edu.my)

Kevin Holland  
Cardiff Business School  
Cardiff University  
Aberconway Building, Colum Drive  
Cardiff, CF10 3EU, UNITED KINGDOM.  
E-Mail: [HollandK2@cardiff.ac.uk](mailto:HollandK2@cardiff.ac.uk)

Teerooven Soobaroyen  
Essex Business School  
University of Essex  
Wivenhoe Park  
Colchester C04 3SQ, UNITED KINGDOM.  
E-Mail: [tsooba@essex.ac.uk](mailto:tsooba@essex.ac.uk)