

**THE LABOR MARKET CONSEQUENCES OF EXECUTIVE INFLUENCE ON
FIRM TAX STRATEGY**

A Dissertation

by

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Submitted to the Office of Graduate and Professional Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

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August 2015

Major Subject: Accounting

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ABSTRACT

Prior research has shown that executives can significantly influence firm tax strategy. However, we know little about the consequences of executive influence on firm tax strategy. I examine labor market consequences, which capture the financial and reputational consequences of executives' actions. I find that executives face negative labor market consequences when they influence firm tax strategy. This finding is consistent with executive influence on firm tax strategy signaling to the labor market that executives are focusing on non-core activities of the firm. Further, this negative relationship is stronger among executives whose performance and characteristics are uncertain to the labor market as the labor market seeks additional information regarding these executives. These results are robust to alternative proxies of executive influence on firm tax strategy and alternative proxies of labor market consequences. By examining labor market consequences, I provide evidence of the consequences of executive influence on firm tax strategy. This study also furthers our understanding of how the labor market values and evaluates executives.

DEDICATION

To Breanne. She was the glue that held me together when things seemed impossible.

ACKNOWLEDGEMENTS

I am grateful for the assistance of my dissertation committee: Connie Weaver (chair), Thomas Omer, Senyo Tse, and Michael Withers.

I am grateful for the helpful comments of Brant Christensen, Wendy Boswell, Sean McGuire, Sarah Rice, Frances Tice, Brady Twedt, and Paul Wong and workshop participants at Texas A&M University, Florida State University, the University of Houston, and Utah State University.

I also thank John Gallemore, Ed Maydew, and Jake Thornock as well as Ryan Wilson and Michelle Hanlon for a list of tax shelter firms used in additional analysis.

I gratefully acknowledge Texas A&M University and Mays Business School for financial support.

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1. INTRODUCTION

In an attempt to better understand the wide variation of tax avoidance across firms (see Dyreng et al. 2008; Hanlon and Heitzman 2010), recent research has begun examining the influence executives have on firm tax strategy.¹ Dyreng et al. (2010) examine whether top executives influence the tax avoidance component of tax strategy in a way that cannot be explained by firm fixed effects or other firm characteristics. They find that executives influence tax strategy and attribute this influence to executives setting a ‘tone at the top’.² However, Dyreng et al. (2010) left two important questions unanswered regarding executives and taxes. First, they do not explore the consequences to executives who influence firm tax strategy. Second, they do not identify when executive influence on firm tax strategy is relevant to others. I answer these questions by examining the labor market consequences of executive influence on firm tax strategy.

I define *labor market consequences* as changes in the opportunities executives have in the labor market as a result of their actions. Labor market consequences affect the executive’s future financial rewards and prestige. I focus on labor market consequences rather than compensation because prior research has shown that tax avoidance can directly influence executive bonuses (Gaertner 2014) and equity holding

¹ By firm tax strategy, I refer to the overall tax goals or policy of the firm and not to particular tax transactions or schemes. Tax avoidance would be one tax strategy: to minimize current tax payments. Other tax strategies might be to have consistent tax outcomes or to minimize investment in tax planning.

² Consistent with the findings of Dyreng et al. (2010), I define executive influence on firm tax strategy as an executive having an unusual and consistent impact on firm tax strategy regardless of firm incentives and structure.

values (Rego and Wilson 2012; Seidman and Stomberg 2012; Armstrong et al. 2014), which could cloud tests of executive influence on tax strategy, and compensation may not capture the prestige of different jobs in the labor market. Fee et al. (2013) document that boards of directors can observe executive influence on various firm policies and make hiring decisions accordingly. Thus, it is reasonable to believe that boards of directors and other decision makers in the executive labor market observe and respond to executive influence on firm tax strategy.³ By examining labor market consequences of executive influence on firm tax strategy, I can determine whether executives are rewarded or punished for influencing firm tax strategy.

Prior research suggests that executive influence on firm tax strategy could matter in some situations and not others and could lead to positive or negative labor market consequences. One stream of research finds mixed results about the outcomes of different tax strategies (Desai and Dharmapala 2009; Wilson 2009; Kim et al. 2011; McGuire et al. 2013), suggesting that no single tax strategy is preferred and would be rewarded by the labor market. Rather the labor market may respond to executives who influence firm tax strategy as a signal of an executive characteristic regardless of which strategy the executive is encouraging.

A second stream of research suggests that choosing a tax strategy is not a core activity of most firms (Porter 1985; Quinn 1999; Contractor et al. 2010) and therefore should not be the focus of executives as this could lead to poorer firm performance.

³ In discussions with an individual from an executive search firm, they had no doubts that an executive's influence on firm tax strategy could be known in the labor market. Further, they said that it can come up in interview questions and is something the search firm can identify.

Thus, the labor market should reward executives who focus on the firm's core activities (e.g., setting overall firm strategy or determining new products/services) and penalize executives who focus on non-core activities such as tax strategy (Ananthalakshmi 2013; Sheahan 2013; Tuttle 2013).⁴

A third stream of literature based on agency theory suggests that executive influence on firm tax strategy should have positive labor market consequences because executives are responsible for maximizing the return to shareholders using all means available to them within the bounds of the law (Jensen and Meckling 1976; Fama and Jensen 1983). Consistent with this idea, prior research shows that executives who improve firm performance have positive labor market consequences (Tosi et al. 2000; Bertrand and Schoar 2003; Fee and Hadlock 2003). Because different tax strategies can create economically significant cash savings to firms (Mills et al. 1998; Scholes et al. 2009), executives who influence tax strategy can optimize the investments in tax planning and increase cash flows. This increased cash return to shareholders should lead to positive labor market consequences.

A fourth stream of literatures suggests that the labor market may ignore an executive's influence on firm tax strategy in some circumstances but actively seek and use information about executive influence on firm tax strategy in other circumstances (Gulati and Higgins 2003; Ilmola and Kuusi 2006). I expect active searching for executive influence on firm tax strategy to occur when there is uncertainty regarding an

⁴ Dyreng et al. (2010) suggest that executives can influence firm tax strategy via 'tone at the top': making hiring decisions, setting compensation and budgets, etc. Even if this takes little time or effort of the executive, it still is a signal that they are focusing on non-core activities and could lead to negative labor market consequences.

executive's performance and characteristics (Reilly and Conover 1983). In these situations, executive influence on firm tax strategy may signal information about the executive's characteristics or performance not otherwise known to the labor market. Therefore the labor market consequences to executives' influencing firm tax strategy should be strongest among executives whose performance and characteristics are uncertain.

To determine the labor market consequences of executive influence on firm tax strategy, I first estimate executive influence on firm tax strategy using executive fixed effects, requiring executives to work for at least two firms (Dyreg et al. 2010). I then determine if executives who influence firm tax strategy are more likely to be promoted than those who do not, using appropriate executive and firm characteristics as controls.

I find that executives who influence the variation of firm tax strategy are less likely to be promoted compared to executives who do not influence the variation of firm tax strategy, holding firm performance, other firm characteristics, and executive characteristics constant. This finding is consistent with the notion that executive influence on firm tax strategy is a signal of a non-core activity focus. In addition, I find that the labor market consequences are stronger when there is uncertainty about executives' performance and characteristics. This finding is consistent with executive influence on firm tax strategy being fully considered by the labor market when there is uncertainty about the performance and characteristics of an executive.

I conduct a number of additional analyses to test the robustness and generalizability of my results. I use an alternative methodology to estimate executive

influence on firm tax strategy, and find that my results are generalizable to executives who work at only one firm. I also find that executives who influence an alternative non-core activity also face negative labor market consequences. Finally, I demonstrate that my results hold among firms implicated in a tax shelter. Using Gallemore et al.'s (2014) sample of tax shelter and matched firms, I find that executives who leave firms that are implicated in a tax shelter have more negative labor market consequences than executives who leave firms that are not implicated in a tax shelter. This is of particular note because Gallemore et al. (2014) find no reputational consequences of a firm being implicated in a tax shelter including no changes in executive turnover even though recent survey evidence suggests that there should be reputational consequences to tax shelter activity (Graham et al. 2014).

My study contributes to three literatures. First, this study furthers the literature discussing the consequences of firm tax strategy choice. Prior research suggests both positive and negative consequences to firms because of their tax strategy choices (Desai and Dharmapala 2009; Hanlon and Slemrod 2009). I demonstrate that one consequence of firm tax strategy choice is negative labor market consequences for executives who influence firm tax strategy. Second, my study furthers our understanding of executives influencing firm choices. My findings verify that firms' tax strategies differ because of executives' idiosyncratic characteristics and not just because of firm characteristics, supporting the executive fixed effect methodology. This study furthers our understanding of the role executives play in firm tax strategy by suggesting that executives who influence firm tax strategy are not focusing on the core activities of the

firm. Also, I provide evidence that the labor market detects and responds to executives' influence on firm tax strategy.

Third, this paper contributes to the executive labor market literature. I demonstrate that the labor market responds negatively to executives whose influence on firm tax strategy suggests that they focus on non-core activities of the firm. I also demonstrate that the executive labor market evaluates how an executive achieves firm performance (core vs. non-core activities) as well as the level of performance. Further, I demonstrate that when an executive's characteristics or performance are uncertain, the labor market seeks additional information about the executive, including information on their propensity to influence firm tax strategy.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Executive Influence on Firm Tax Strategy

Historically, most accounting and corporate tax research has assumed that executives are homogeneous and react similarly to incentives (Bertrand and Schoar 2003). However, accounting and tax research has recently started acknowledging and studying the influence of individual executives. For instance Bamber et al. (2010) document that individual executives have unique firm disclosure preferences or style (see also Davis et al. 2014). Ge et al. (2011) demonstrate that CFOs influence specific firm accounting choices such as accruals and pension accounting. Li et al. (2010) demonstrate that individual CFO's professional qualifications relate to the likelihood of receiving an internal control weakness opinion and the probability of improving internal controls.

Consistent with this literature, Dyreng et al. (2010) document that individual executives have an economically and statistically significant influence on firm tax strategy. Executives influence tax strategy by setting the 'tone at the top': allocating firm resources, setting compensation incentives, and making hiring decisions (Robinson et al. 2010; McGuire et al. 2014). Dyreng et al. (2010) provide evidence that 12.2 percent of executives substantially influence firm effective tax rates (ETRs).⁵

⁵ Specifically, Dyreng et al. (2010) find the 12.2% of executives have a statistically significant (p -value < 0.05) fixed effect when estimating GAAP ETR.

Executives influencing firm tax strategy can increase or decrease ETRs by 15 to 20 percent.

Contemporary with and subsequent to Dyreng et al. (2010), there is a growing literature examining the relation between executives' incentives and firm tax strategy. For instance, prior research has found equity incentives of CEOs and CFOs (Rego and Wilson 2012), after-tax compensation (Gaertner 2014), and high powered incentives (Desai and Dharmapala 2006) are associated with higher levels of tax avoidance. Neuman (2014) demonstrates that the executives' incentives affect whether firms focus on minimization or sustainability tax strategies. These studies could suggest that executive influence on firm tax strategy is a function of incentives, does not represent idiosyncratic executive characteristics, and should not be valued in the labor market.

Conversely, a number of papers have examined how specific executive characteristics influence firm tax strategy. Executives' personal tax aggression (Chyz 2013), overconfidence (Chyz et al. 2014), political affiliations (Francis et al. 2012; Christensen et al. 2014), military background (Law and Mills 2014), narcissism (Olsen and Stekelberg 2014), and ability (Francis et al. 2013; Koester et al. 2014) have all been shown to be related to different firm tax strategies. Thus, there is a growing literature suggesting that executive's idiosyncratic differences are related to firm tax strategy. However, the evidence is still limited and at times mixed, suggesting a need for further study.

2.2 The Executive Labor Market

The executive labor market differs from a more general labor market for several reasons and accordingly has become an area of interest to researchers (Rajgopal et al. 2012). First, the compensation of executives is much higher than that of most individuals. Because firms commit so many resources to such a small group of executives, the selection of executives is relatively riskier and more important to the future performance of the firms they work for (Bertrand and Schoar 2003; Zhang and Rajagopalan 2004). Second, executives are hired, fired, and compensated by the board of directors but do not directly work for the board of directors but for the shareholders. This leads to agency problems not found in other settings (Jensen and Meckling 1976).

Prior executive labor market research in management, accounting and finance has provided insights into how the labor market values executives and what executive characteristics may lead to positive or negative labor market consequences. For example, executive pay increases with both accounting earnings (Sloan 1993) and firm size (Tosi et al. 2000). The probability of being promoted to CEO increases when executives are overconfident (Goel and Thakor 2008), have large social networks (Liu 2008), and have international experience (Magnusson and Boggs 2006). However, prior research examining labor market consequences of various executive characteristics does not consider executive influence on firm tax strategy.

2.3 Consequences of Firm Tax Strategy

There is a small but growing literature examining the consequences of different firm tax strategies, which may give insights into how the labor market could respond to

executive influence on firm tax strategy. If a firm tax strategy increases (decreases) firm value then the labor market should reward (punish) executives who encourage that firm tax strategy. However studies document mixed consequences for firms seeking particular tax strategies. For instance, Desai and Dharmapala (2009) demonstrate that for well governed firms, firm value is increased by increased levels of firm tax avoidance. Graham and Tucker (2006) demonstrate that firms involved in tax shelters lower their leverage levels because of the decreased tax benefit of interest expense. Wilson (2009) demonstrates that well governed firms in tax shelters have higher market returns than firms without tax shelters. On the other hand, Hanlon and Slemrod (2009) find a negative stock market reaction to news that a firm is involved in a tax shelter. And Kim et al. (2011) show that high levels of tax avoidance can increase stock price crash risk. Part of the reason for these mixed results could be a tradeoff between the level and consistency of firm outcomes. McGuire et al. (2013) demonstrate that firms with consistent tax outcomes have more persistent earnings and cash flows; however, those more consistent outcomes often come at a cost of higher levels of tax payments.

Gallemore et al. (2014) examine the firm reputational consequences of being implicated in a tax shelter and conclude that there are no reputational consequences to firms engaging in tax shelter activities. The test in Gallemore et al. (2014) most related to my study is the examination of CEO and CFO turnover after a firm is implicated in a tax shelter. They show that at firms implicated in a tax shelter the CEO and CFO turnover is no different than at matched non-tax shelter firms for up to three years. This finding could suggest that there are no labor market consequences for executives who

influence firm tax strategy. However, Gallemore et al. (2014) only examine executive turnover, which can be limited by executive contracts that dictate the length of employment, appropriate causes for termination, and additional termination compensation. On the other hand, I examine labor market consequences that are not tied to current contracts and therefore may be sensitive to executive influence on firm tax strategy.⁶

Because prior research regarding the consequences of firm tax strategy does not indicate that any particular tax strategy consistently leads to more positive firm outcomes than any other tax strategy, I explore alternative concepts to inform my hypotheses: core activity focus, agency theory, and executive uncertainty. Given that firms and individuals are resistant to change, business strategies tend to be unvarying without intervention (Schwartz and Davis 1981; Aladwani 2001). Therefore, executives who have a consistent and unusual influence on firm tax strategy must be focusing on taxes to some degree, which could be a signal to the labor market.

2.4 Core Activity Focus

Dyreng et al. (2010) find that executives who are influencing the level of a firm's tax strategy are not influencing leverage, research and development, advertising, cash holdings, or foreign operations. Given that leverage, research and development, advertising, cash holdings, and foreign operations are related to core activities at most

⁶ As discussed in section V, using Gallemore et al.'s (2014) sample and labor market consequences not tied to contracts, I find evidence of labor market consequences for executives at firms implicated in tax shelters.

firms, executive influence on firm tax strategy may be a signal that the executive is focused on a non-core activity of the firm. If an activity is not considered core to the success of the firm, then it may better to outsource that activity and allow executives to give it little to no attention (Quinn 1999; Contractor et al. 2010). A retail firms' core activities would be related to selling products, obtaining new products to sell, and placing products into new markets. These activities would be considered core activities because they are vital to the survival of the firm. If any of these activities are not done well, the firm may cease to exist.⁷ Comparatively, firm tax strategy supports the core activities of a firm and may enhance value (Mills et al. 1998) but is not likely to determine the future survival of a firm.

Anecdotally, firms consider core activity focus in hiring and firing executives. Recently, JC Penney and Siemens fired their CEOs and cited lack of focus on the core activities of the firm as one reason for the removals (cnbc.com 2013; Tuttle 2013).⁸ Siemens and Navistar both cited a return to core activities of the firm in their selection of new CEOs (Ananthalakshmi 2013; Sheahan 2013). This issue also arises in the debate regarding the level of executive pay (Rapoport 2014; Usvyatsky 2014). Many executive compensation experts argue that executives should not be compensated on overall firm

⁷ Prior research has shown that mergers and acquisitions lower future firm performance and stockholder returns of the acquirer (Haleblian et al. 2009; Ravenscraft and Schere 1988). One reason for this outcome could be that through acquisitions, firms are not focusing on their core activities (Ravenscraft and Schere 1988; Marks et al. 2001). If long-term firm performance can be harmed by not focusing on core activities, then any signs that executives are not focusing long-term should be noted and considered to prevent the firm from focusing on non-core activities.

⁸ Examining the GAAP ETRs of JC Penney and Siemens suggests that the fired CEOs may have also influenced their firm's tax strategy. JC Penney had much lower GAAP ETRs during Ron Johnson's CEO tenure. While the variation of Siemens' GAAP ETRs increased drastically during Peter Loscher's CEO tenure.

performance but on the performance of the core activities of the firm (Dechow et al. 1994). Focusing on the core activities of the firm can lead executives to focus long term and create the most value for shareholders (Bradshaw and Sloan 2002; Bhattacharya et al. 2003). Accordingly, many firms prominently report ‘core earnings’ and compensate executives based upon ‘core earnings’ (McVay 2006; Rapoport 2014).

If non-core activities do not lead to firms’ long-term success, executives should devote the majority of their time and efforts to core activities of the firm and minimize focus on non-core activities like firm tax strategy. Executives can influence firm tax strategy through setting budgets, hiring or firing tax experts, and compensating managers.⁹ While these activities may not take much executive effort or firm resources, if an executive is consistently encouraging a specific tax strategy regardless of firm characteristics that is a signal that they are focused on a non-core activity and that firm core activity performance could suffer in the future. Therefore executives who influence firm tax strategy should face negative labor market consequences.

2.5 Maximization of Return

Agency theory focuses on ways to encourage executives, as agents of shareholders’ investments, to maximize the return to shareholders (Jensen and Meckling 1976; Fama and Jensen 1983). Because executives have incentives and utility functions

⁹ I argue that this theory would apply to CFOs as well as to other executives. Though the CFO is closer to the tax department than other executives, taxes are rarely part of their job description. Rather, according to EY (2010) CFOs are to communicate with the external market place, ensure business decisions are based on sound financial criteria, provide insights and analysis to support the CEO and other senior managers, lead key initiatives in finance to support the overall goals of the firm, obtain funding to enable and executive strategy, and help develop and define the overall firm strategy. Therefore, if a CFO is consistently implementing a specific tax strategy regardless of firm characteristics and circumstances, then the CFO is allocating their attention to a non-core activity of the firm.

which may not align with the shareholders of the firm, much effort and thought has been given to induce executives to focus on the returns to shareholders (Lambert 2001).

Accordingly, executives should use legitimate tools and strategies available to them to increase the return to shareholders. And executives that increase returns to shareholders should be rewarded by the executive labor market (Fama 1980).

Prior research has found results consistent with this expectation. For instance, Fee and Hadlock (2003) demonstrate that executives who become CEOs at a new firm come from firms that on average exhibit superior stock performance. Also executive compensation increases with firm performance (Tosi et al. 2000), accounting based earnings (Lambert and Larcker 1987), and positive executive influence on return on assets (Bertrand and Schoar 2003). Further, poor firm performance has been shown to lead to executive termination (DeFond & Hung 2004; Finkelstein et al. 2009).

Research has suggested that the better definition of executive ability is the capacity to consider more possibilities or solutions rather than the capacity to select the best solution from a fixed set (Hambrick and Finkelstein 1987). Therefore, executive influence on firm tax strategy may signal the ability to ‘think outside the box’ and consider more possibilities to maximize return to shareholders. Executives who influence firm tax strategy could be adjusting tax investments and outcomes in such a way to increase the return to shareholders using all tools at their disposal. To the extent that the labor market recognizes and values efforts to maximize shareholder return using all available resources there should be a positive relationship between executive influence on firm tax strategy and labor market consequences.

Because prior research suggests that executive influence on firm tax strategy could lead to both positive and negative labor market consequences, I state my first hypothesis in the null:

***H1:** Executives who influence firm tax strategy will have the same labor market consequences as executives who do not influence firm tax strategy.*

2.6 Executive Uncertainty

Although I suggest above that the labor market will notice and respond either positively or negatively to executive influence on firm tax strategy, it is possible that the labor market may not notice or value executive influence on firm tax strategy. Most accounting research has been based on the neo-classical economic view of executives. The theory suggests that executives are rational and will respond to the incentives he or she is given to maximize his or her pay (Weintraub 2002). It could be the case that executive influence on firm tax strategy is driven by the incentives provided them (Rego and Wilson 2012; Armstrong et al. 2014) and does not represent idiosyncratic executive characteristics; therefore, it should not be considered by the executive labor market. Also, as boards of directors consider possible executive candidates, influence on firm tax strategy may not be considered. Leadership style, personality, personal connections, and ability are likely to drive labor market decisions (Useem 1984; Judge et al. 1995; Seibert et al. 2001; Finkelstein et al. 2009).

If leadership style, personality, and ability are driving labor market decisions, in what situations would executive influence on firm tax strategy be considered? Signaling theory discusses how in situations of information asymmetry, the party with more

information, the signaler, can send a signal containing private information to the party with less information, the receiver (Spence 1973, 1974; Connelly et al. 2011). In the executive labor market, executives have been shown to unintentionally send positive and negative signals to boards of directors (Perkins and Hendry 2005). If I consider executive influence on firm tax strategy a weak signal of executive characteristics, then the signal may not be received unless the receiver is actively looking for additional signals (Gulati and Higgins 2003; Ilmola and Kuusi 2006). And receivers should actively search for additional signals when they are facing uncertainty (Kohn and Shavell 1974; Reilly and Conover 1983). Accordingly, when uncertain about the performance and characteristics of an executive, boards of directors will seek out additional information about that executive and will be more likely to consider executive influence on firm tax strategy.¹⁰

***H2:** The relation between labor market consequences and executive influence on firm tax strategy is stronger among executives with uncertain performance and characteristics.*

¹⁰ Executive influence on firm tax strategy could signal multiple things to the labor market about an executive's personality, leadership style, or ability. If executives are influencing firm tax strategy because they are focused on non-core activities, this could signal that the executive is obsessive, distracted, a micromanager, or a poor performer who covers it up by focusing on non-core activities. If executives are influencing firm tax strategy to maximize return to shareholders, this could signal to the labor market that the executive is creative or has the ability to manage many things at the same time.

3. DATA AND RESEARCH DESIGN

3.1 Measuring Executive Influence on Firm Tax Strategy

To measure executive influence on firm tax strategy, I obtain an initial sample of 41,605 executives from Execucomp from 1992 to 2013. I retain executives who work for more than one firm for at least three years, leaving 1,919 executives in the sample. Requiring executives to work for at least three years at multiple companies allows me to measure the executive influence on firm tax strategy separate from the firms' influence on firm tax strategy (Bertrand and Schoar 2003), which is essential to the inferences of my study. Also, executives are allowed sufficient time to demonstrate a consistent influence on firm tax strategy. I include all firm years from Compustat for all firms associated with these 1,919 executives that have required regression variables. This creates a sample of 31,918 executive-firm-years with which I estimate Equation (1) following Dyreng et al. (2010):

$$ETR_{it} = \alpha_0 + \alpha_1 CONTROL_{it} + \alpha_2 YEAR_t + \alpha_3 FIRM_i + \alpha_4 EXEC_m + \varepsilon_{it} \quad (1)$$

Where *ETR* is GAAP ETR, *GETR*, or the coefficient of variation of GAAP ETR, *CVGETR*. I choose these firm tax strategy proxies for two reasons. First, recent research has suggested that firm tax strategy activities have two basic dimensions: level and variation (McGuire et al. 2013; Neuman 2014). Because I want to identify executives influencing either dimension of firm tax strategy, I include variables that capture both the level and the variation of firm tax strategies. Second, both of these

measures are based on GAAP ETR which ties to tax expense in the financial statements, are explicitly reported and discussed in the notes to the financial statements, and are often stated in earnings announcements. Accordingly, decision makers in the executive labor market can easily observe GAAP ETRs and estimate an executive influence on a firm's GAAP ETR. Also prior research has shown that executives focus on GAAP ETRs over CASH ETRs (Armstrong et al. 2012; Graham et al. 2014; Robinson et al. 2010), suggesting that the executive labor market would also focus on GAAP ETRs.¹¹

GETR is calculated as total income tax expense divided by pretax book income less special items (Dyreng et al. 2010). *CVGETR* is calculated over a three year period¹² from year $t-2$ to year t and is the standard deviation of the ratio of total income tax expense divided by pretax book income all divided by the mean of the same ratio, total income tax expense divided by pretax book income (McGuire et al. 2013).¹³

CONTROL is an array of time-variant firm characteristics consisting of *Leverage*, *OptionExpense*, *R&D*, *NOL*, *Size*, *Foreign*, *Advertising*, *Capex*, *Intangible*, *PPE*, and *SGA* (Dyreng et al. 2010). *Leverage* proxies for the tax advantage of debt (Mills et al.

¹¹ I acknowledge that GAAP ETR measures do not capture tax strategies associated with deferral items as Cash ETR measures do. However, in untabulated analysis, I find that executives who influence the Cash ETR or the coefficient of variation of Cash ETR do not have different labor market consequences than executives who do not influence Cash ETR or the coefficient of variation of Cash ETR. This is consistent with boards of directors and other decision makers in the labor market focusing on GAAP ETR measures.

¹² Prior research estimating the variation of tax strategies has based their measure on a five year period from year $t-4$ to year t (McGuire et al. 2013). I use a three year period because I only require executives to spend three years at a firm. A five year measure could be outside the bounds of their employment. Even a three year measure has values early in an executive's tenure that are related to the prior executive, creating some noise in my measure.

¹³ While McGuire et al. (2013) focus on the coefficient of variation of Cash ETR, they note that their results are consistent using the coefficient of variation of GAAP ETR.

1998). *R&D* controls for the tax credit associated with research and development (Berger 1993). Firms with tax loss carryforwards on their books, *NOL*, can shelter future income against tax (Maydew 1997). *Size* and *Foreign* are included because larger firms and firms with foreign operations have more tax planning opportunities and tend to have lower ETRs (Gupta and Newberry 1997; Rego 2003). *Advertising*, *Capex*, *Intangible*, *PPE*, *SGA*, and *OptionExpense* give information about the flexibility and structure of the firm which influence firm tax strategy (Mills et al. 1998; Dyreng et al. 2010). All variables in *CONTROL* are calculated following Dyreng et al. (2010) and detailed in Appendix A.

YEAR, *FIRM*, and *EXEC* are arrays of year, firm, and executive fixed effects. *EXEC* is the variable measuring executive influence on firm tax strategy (Dyreng et al. 2010).¹⁴ From the estimates of *EXEC*, I create my measures of executive influence on firm tax strategy, *ExecInfluence*, which is defined as *SigGETR* or *SigCVGETR*. *SigGETR* (*SigCVGETR*) is an indicator variable equal to one for any executive with a coefficient on *EXEC* that is statistically significant (p -value < 0.05)¹⁵ when estimating Equation (1) with *GETR* (*CVGETR*) as my dependent variable.¹⁶

¹⁴ My base group for the executive fixed effects (Woolridge 2009) is all firm years in my sample without an identified executive. This makes my estimates of *EXEC* roughly the difference between a particular executive's influence on firm tax strategy and the average executive's influence on firm tax strategy.

¹⁵ In untabulated analysis, the sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same if I use a cut off of p -value < 0.10. Though slightly weaker, the inferences of my main results also remain the same using a cut off of p -value < 0.01.

¹⁶ I use a statistical method to estimate an executive's influence on firm tax strategy, whereas boards of directors examining executives will not likely have such estimates. However, they will only examine a few executives at a time, allowing them to consider firm structure, changes in overall firm strategy, and incentives to appropriately determine if an executive is encouraging a particular tax strategy. Therefore, my statistical estimates are a reasonable proxy for the actual process boards of directors may go through.

The executive fixed effect methodology has faced recent criticism (see Fee et al. 2013), but I use it because evidence suggests that the coefficient estimates from this method capture idiosyncratic executive characteristics (Bertrand and Schoar 2003; Bamber et al. 2010; Dyreng et al. 2010). Fee et al. (2013) examine changes in firm characteristics around exogenous and endogenous CEO changes. They find evidence consistent with boards of directors hiring executives who fit the goals the firm wants to pursue. As part of this analysis, Fee et al. (2013) use a simulation technique to demonstrate that an F-test on a group of executive fixed effects is not necessarily consistent with those executives as a whole significantly influencing a particular firm's outcome. However, Fee et al. (2013) does *not* provide evidence that the individual coefficient estimates of the fixed effects are not meaningful. Bertrand and Schoar (2003) and Bamber et al. (2010) demonstrate that the estimated coefficients for the executive fixed effects in their studies are related to other executive characteristics, suggesting that the fixed effects do measure a real executive characteristic. Also, Dyreng et al. (2010) run a similar simulation to Fee et al. (2013) and show that in none of their 1,000 simulations of random data is the number of significant executive fixed effect coefficients as high as the number of significant executive fixed effect coefficients in their actual data. So while Fee et al. (2013) demonstrate that an F-test is not appropriate to conclude executive influence on a firm's outcome, prior research has demonstrated that the individual fixed effect coefficients are meaningful and related to idiosyncratic executive characteristics. Accordingly, they are useful to estimate

executive influence on firm tax strategy.¹⁷ Further, this executive fixed effect methodology allows me to separate the executive's influence on firm tax strategy from any changes in tax strategy due to changes in the firm characteristics and opportunities. Thus it cleanly measures the unusual influence an executive has on firm tax strategy.

3.2 Sample Selection

After estimating Equation (1), I have 1,787 executives for whom I am able to estimate *ExecInfluence*. I remove 121 executives who work at two concurrent jobs (beginning and end dates of one job are within the beginning and end dates of the other job) rather than a job change. I also remove 111 executives who work for three or more firms because it is not clear which job move should be used to measure labor market consequences (first or last or average).¹⁸ Finally, I remove 159 executives who do not have all the required regression variables from Compustat, Execucomp, and BoardEx, leaving me with a sample of 1,396 executives. See Table 1 in Appendix B for an overview of my sample selection process.

¹⁷ To verify that my results are due to an executive characteristic and not firm characteristics, in untabulated analysis I run a number of robustness tests. First, I regress the percent of executives who significantly influence firm tax strategy at each firm in my sample on the average firm values of *CONTROL* from Equation (1) as well as ROA and executive stock, option, and bonus incentives. Including the variables that significantly ($p < 0.10$) influence either *GETR* or *CVGETR*, *NOL*, *ROA*, *Intangible*, and *PPE*, as additional controls to Equation (2) has no effect to the sign or significance of my main results (Table 3 and Columns 1 and 2 of Table 4). Second, I re-estimate Equation (2) but base *ExecInfluence* on the firm fixed effects from Equation (1) for the first firm the executive worked for instead of the executive fixed effects. In the full sample, the coefficients are not significant (both p -values > 0.10). Third, I find that the mean *GETR* and *CVGETR* the year before an executive who significantly influences *GETR* or *CVGETR* joins a firm are not significantly different than the mean *GETR* and *CVGETR* in all of Compustat. Fourth, I include executives' incentives (delta and vega) in Equation (1) and re-estimate *ExecInfluence*. These incentives have no impact on the sign or significance of my main results (Table 3 and Columns 1 and 2 of Table 4).

¹⁸ In untabulated analysis, I retain executives who work for three or more firms and use their last job change to measure labor market consequences. The sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same.

These 1,396 executives consist of 471 executives who influence either the level or variation dimension of tax strategy (184 influence the level and 361 influence the variation with 74 influencing both) and 925 executives who do not influence either dimension of firm tax strategy. Executives who do not influence firm tax strategy are retained so that my tests can compare executives who influence firm tax strategy against those who do not. Also, consistent with Dyreng et al. (2010) I do not restrict my sample of executives based upon title. All the executives in my sample are among the top five paid executives at both firms they work for, and 74.1 percent are either a CEO or CFO at one of their jobs.^{19, 20} If I keep only CEOs and CFOs, I could add bias to my results by removing executives who are never promoted to CEO or CFO and only keeping executives with positive labor market consequences.

3.3 Measuring Executive Labor Market Consequences

I define labor market consequences as changes in the opportunities executives have in the labor market as a result of their actions. I use promotion as my proxy for labor market consequences because promotion captures improvements in both financial²¹ and non-financial opportunities. Also promotion is not directly related to particular tax

¹⁹ Of the 25.9 percent of executives who are never CEOs or CFOs, 97.0 percent (25.1 percent of the full sample) are general counsel, chief operating officers, vice presidents, or presidents. All of these groups could reasonably influence tax strategy within the bounds of their job description (Dyreng et al. 2010).

²⁰In untabulated analysis, I rerun my main results (Table 3 and Columns 1 and 2 of Table 4) restricting my sample to executives who are ever a CEO, ever a CFO, or both. In all cases, my inferences remain the same.

²¹ For instance, from 1992 to 2013 the median CEO in Execucomp received \$2.2 million in total compensation (Execucomp's TDC1), while the median non-CEO received \$0.9 million. Further, from 1992 to 2013 CEOs at firms with above median total assets had a median total compensation of \$3.9 million compared to just \$1.3 million for CEOs at firms with below median total assets.

strategies as executive bonuses and equity holdings can be (Rego and Wilson 2009). Finally, promotion occurs in the liquid labor market while compensation is tied to contracts and cannot respond freely to executive influence on firm tax strategy.

Most prior research examining executive promotion has examined internal promotions to CEO (Kim 2002; Magnusson and Boggs 2006; Liu 2008). However, my sample contains executives who started as CEOs and executives whose promotions occur by moving firms, making internal promotion to CEO an inappropriate measure of promotion in this study. Therefore, I create a measure of promotion consistent with prior research but appropriate for my setting. I construct an indicator variable, *Promote*, equal to one when an executive is promoted.²² I consider an executive to be promoted in two situations. First, an executive is promoted if the executive was not a CEO at their first job but is at their second job. Because these executives have moved firms, I also require the executive promoted to CEO to have moved to a firm with a market value of equity, *MVE*, no smaller than half that of the first firm. Second, I consider an executive to be promoted if the executive kept the same level of position (CEO or non-CEO) but moved to a larger firm identified as having a *MVE* twice that of the first firm.²³

²² In my sample, the median promoted executive's total compensation (Execucomp's TDC1) over the first three years at their second job increase 92.8 percent compared to the last three years at their first job. While demoted executives (see Appendix A for demotion definition) experience a 4.0 percent increase, and other executive experience a 59.0 percent increase.

²³ In untabulated analysis, I change the *MVE* cutoff for calculating *Promote* for becoming CEO to one-fourth and to one instead of one-half and the cutoff for staying the same title to four and to one instead of two. In all cases, the sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same.

3.4 Research Design – Hypothesis 1

To determine the executive labor market consequences of executive influence on firm tax strategy, I estimate the following logistic equation:

$$\text{Promote}_{mt} = \beta_0 + \beta_1 \text{ExecInfluence}_m + \beta_2 \text{ExecCharacteristics}_{mt} + \beta_3 \text{FirmCharacteristics}_{mt} + \mu_{mt} \quad (2)$$

Promote is as defined above. *ExecInfluence* is either *SigGETR* or *SigCVGETR* and is my variable of interest. A significant estimate of β_1 would cause me to reject H1 and conclude that executive influence on firm tax strategy has an impact in the executive labor market.²⁴

ExecCharacteristics is an array of executive characteristics, which prior research suggest affect the value of the executive in the labor market. It consists of *Connections*, *Young*, *Old*, *Gender*, *Tenure*, *Masters*, *Doctorate*, *Association*, *Elite*, *Background*, *PriorCEO*, and *InternationalExp*. All time variant executive characteristics are measured during the last year of the executive's first job, unless otherwise noted, as this represents the value of the variable when the executive labor market was evaluating the executive. *Connections* is the number of public boards the executive has been on over their career according to BoardEx in 2014²⁵ and represents the number of connections

²⁴ In untabulated analysis I estimate Equation (2) clustering standard errors on the year of job change and industry the executive came from, and the sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same. Further, I also estimate Equation (2) including year and industry fixed effects. Again, the sign and significance of my main results remain the same.

²⁵ This data is not available for all years in my sample. Accordingly, I cannot match this to the number of boards the executive had been on when the labor market was examining them. However, as these numbers are very sticky and I want a consistent measurement, I measure this variable in 2014 for all executives. In untabulated analysis, I find that my results are inferentially the same if I use the earliest data available (usually 2002) instead of 2014.

that an executive has as this can improve labor market outcomes (Kim 2002; Liu 2008). *Young* and *Old* are indicator variables representing the first and third terciles of the age of the executive (first tercile: 26 - 46; second tercile: 47 - 51; third tercile: 52 - 89) as prior research has documented a nonlinear relationship between age and labor market consequences (Magnusson and Boggs 2006). *Gender* controls for any gender discrimination and equals one if the executive is female (Bertrand and Hallock 2001). *Tenure* is the number of years the executive worked at the first firm as prior research suggests it increases the probability of promotion (Magnusson and Boggs 2006). *Masters (Doctorate)* is an indicator variable equal to one if the executive has a masters or professional (doctorate) degree because prior research has shown that increases in an executives' level of education can increase the likelihood of future promotions (Magnusson and Boggs 2006). *Association* is an indicator variable equal to one if the executive has been a member of a professional association and is an sign of social and business connections, which improve labor market consequences (Kim 2002). *Elite* is an indicator if the executive attended an elite educational institution as this creates an information and social network among alumni (Useem and Karabel 1986; Kim 2002).²⁶ *Background* is an indicator equal to one if the executive has a background in finance or accounting. Prior research has suggested that executives with specific functional backgrounds may be more likely to be promoted than others (Magnusson and Boggs 2006). *PriorCEO* is an indicator if the executive was CEO at their first job as this

²⁶ I measure elite education institutions based upon the rankings of US News and World Reports in 2002, the middle of my sample period. See Appendix A for a list of schools considered *Elite*.

reduces the upward mobility of the executive in the labor market. *InternationalExp* is the natural log of the average international income the executive's first firm had over the last three years the executive was at the firm and has been shown to lead to promotions (Magnusson and Boggs 2006).

FirmCharacteristics is an array of firm characteristics included as control variables: *ROA*, *MarketSize*, and *FirmAge* and represents values from the first firm at which the executive worked.²⁷ *ROA* controls for firm performance as executives working at high performing firms are more likely to be promoted (Kim 2002; Fee and Hadlock 2003). *ROA* is the average return on assets over the last three years the executive was at their first firm, where return on assets is net income divided by lagged total assets.^{28, 29} *MarketSize* and *FirmAge* could lead to executives gaining specialized skills, which could affect their prospects of promotion. *MarketSize* is the natural log of *MVE*. *FirmAge* is the number of years the firm has been listed in Compustat. All

²⁷ It is possible that since these executives are changing the firm's tax strategy, this creates some uncertainty to investors. To verify that my results are due to executive influence on firm tax strategy and not uncertainty, in untabulated analysis I include the variation of the firm's stock during the last three years the executive was at the firm or the executives influence on firm stock variation. In both cases the sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same.

²⁸ Prior research has shown that executives can have a unique influence on firm performance (Bertrand and Schoar 2003). To verify my results are not driven by executives' influence on firm performance, in untabulated analysis I re-estimate Equation (1) using return on assets as the dependent variable. I then take the executive fixed effects from the return on assets estimation and add them as an additional control variable to Equation (2). Doing so has no impact on the sign or significance of my main results (Table 3 and Columns 1 and 2 of Table 4).

²⁹ I choose to use an after tax return on assets, *ROA*, to show that the response to executive influence on firm tax strategy is independent of how those tax strategies may impact after tax firm performance. However, *ROA* could be associated with a firm's tax strategy. In untabulated analysis, I replace *ROA* with firm performance measures based upon pretax income, core earnings (operating income before depreciation), or percent change in *MVE*. In all cases the sign and significance of my main results (Table 3 and Columns 1 and 2 of Table 4) remain the same.

continuous variables in Equation (2) are winsorized at the 1st and 99th percentile unless otherwise noted. Additional details about variable calculations can be found in Appendix A.

3.5 Research Design – Hypothesis 2

My second hypothesis suggests that the relation between executive influence on firm tax strategy and labor market consequences should be stronger when the labor market is uncertain about an executive. Uncertainty about an executive could arise when the labor market is uncertain about the characteristics of the executives. If the executive is not well known in the labor market, then uncertainty will abound about their personality and leadership style, characteristics crucial to executive success (Kirkpatrick and Locke 1990; Peterson et al. 2009).

To capture uncertainty regarding an executive, I calculate *Uncertain* as an indicator variable equal to one if the executive does not sit on any public boards during their careers according to BoardEx (*Connections* equals zero).³⁰ Once I have created *Uncertain*, I split my sample into those executives who have high uncertainty and those who do not and re-estimate Equation (2). H2 suggests that I should find stronger effects for those executives with high uncertainty.

³⁰ In untabulated additional analysis, I use firm idiosyncratic risk (Bushman et al. 2010) to create *Uncertain* instead of board seats. The inferences of my results do not hold in this situation. This is not surprising given that this measure is focused on firm uncertainty and not executive uncertainty. Alternatively, in untabulated analysis, I use a broad measure of executive connections from BoardEx combined with poor firm performance to measure uncertainty about an executive. While not as well grounded in theory, this measure does a better job of splitting my sample by uncertainty (the differences between coefficients in uncertainty and not uncertainty are statistically significant).

4. RESULTS

4.1 Summary Statistics

I present all tables referenced in the manuscript in Appendix B. Summary statistics for the sample used to estimate Equation (1) following Dyreng et al. (2010) can be found in Table 2 Panel A. My sample is larger than Dyreng et al.'s (2010) because my time period extends to 2013 compared to 2006. Overall, the summary statistics are consistent with Dyreng et al. (2010). Given that the recent financial crisis led to taxable losses, I find a larger percent of firms having an *NOL*. The financial crisis could also explain why I find a slightly lower level of *CAPEX* compared to Dyreng et al. (2010).

Summary statistics for the sample of executives used to estimate Equation (2) are found in Table 2 Panel B. In my sample, 43.6 percent of job changes are classified as promotions. I find that 13.2 percent and 25.9 percent of executives significantly influence *GETR* and *CVGETR*, respectively.³¹ The mean *Connections* in my sample is 1.7 and 5.5 percent of my sample is female. Also, 37.9 percent of executives in my sample have finance or accounting backgrounds and 19.8 percent were CEOs at their first job. The companies at which these executives work have an average *MarketSize* of 7.68 (natural log of *MVE*), an average *ROA* of 3.5 percent, and an average *FirmAge* of 28.4 years.

³¹ I find that 16.5 (24.9) percent of CEOs, 11.5 (28.6) percent of CFOs, and 10.9 (24.7) percent of other executives influence *GETR* (*CVGETR*), suggesting that CEOs and CFOs are more likely than other executives to influence firm tax strategy consistent with the idea that executives influence firm tax strategy through 'tone at the top.'

In Table 2 Panel C, I divide my sample into the 184 executives who influence *GETR* ($SigGETR = 1$), the 287 executives who influence *CVGETR* ($SigCVGETR = 1$), and the 925 executives who do not influence either measure of tax strategy. I find that those who influence *CVGETR* are less likely to be promoted compared to those who do not influence firm tax strategy, providing some univariate evidence consistent with executives who influence firm tax strategy facing negative labor market consequences. I also note that the firms associated with executives who influence firm tax strategy on average perform worse than other firms, which would be expected if these executives are focusing on non-core activities of the firm.³² I find that executives who influence firm tax strategy are likely to have more connections, less likely to be female, more likely to have gone to an elite school, and work at slightly smaller firms. *Connections* is the only variable with a significant difference between executives who influence *GETR* and those who influence *CVGETR*.³³

4.2 Hypothesis 1

Table 3 provides my estimates of Equation (2), regressing *Promote* on *ExecInfluence* and controls. When *SigGETR* is my variable of interest (Column 1), I find an insignificant coefficient (-0.0869, p -value > 0.10), suggesting that the labor market either does not recognize or does not value executive influence on the level

³² The differences in *ROA* are stronger when looking at a return on assets based on core earnings (operating income before depreciation) of the firm suggesting that the differences in *ROA* are at least partially driven by poorer performance in core activities.

³³ I note that 74 executives influence both *SigGETR* and *SigCVGETR*, which will minimize any differences between the two groups. However, if I remove those 74 executives and re-estimate the differences in means, only one more variable, *InternationalExp*, is significantly different (p -value < 0.10) with those who influence *GETR* having more international experience than those who influence *CVGETR*.

dimension of firm tax strategy. Model fit is adequate with the area under the ROC curve of 0.709 (Hosmer and Lemeshow 2002). Also, the p -value of the Pearson goodness-of-fit test is 0.139, meaning I cannot reject the null that the fit of the model is adequate. When *SigCVGETR* is my variable of interest (Column 2), I find a negative and significant coefficient (-0.4692, p -value < 0.01).³⁴ This suggests that the executives who influence the variation dimension of firm tax strategy are less likely to be promoted than those who do not influence the variation dimension of firm tax strategy. Fit of this model is also adequate: area under the ROC curve is 0.715 and the Pearson goodness-of-fit p -value is 0.145. Consistent with prior research, I find that *Connections* and *Young* are positively related to *Promote*. Also, *PriorCEO* and *MarketSize* are negatively related to *Promote* as executives who are CEOs or at large firms are close to the apex of the labor market and have few opportunities to be promoted. However, most of my control variables are not significant predictors of executive promotion. This is consistent with non-measurable variables of personality, leadership style, and ability driving the promotion decision (Finkelstein et al. 2009).

Overall, the results in Table 3 provide some evidence that executives who influence firm tax strategy face negative labor market consequences. This is consistent with executives who influence firm tax strategy focusing on non-core activities of the firm. This result is found only among executives who influence the variation dimension of firm tax strategy. Research suggests that investors and executives prefer smooth

³⁴ The odds ratio for this coefficient suggest that executives who influence the variation of firm tax strategy are 37 percent less likely to be promoted than other executives.

earnings over temporarily high earnings (DeFond and Park 1997; Goel and Thakor 2003). Therefore, the executive labor market may be more sensitive to executive influence on firm tax strategy that could affect the variation of earnings compared to executive influence on firm tax strategy that could affect the level of earnings.

4.3 Hypothesis 2

My second hypothesis suggests that executive influence on firm tax strategy will impact labor market consequences the most when there is uncertainty regarding the executive's characteristics and performance. Columns 1 and 2 of Table 4 provide estimates of Equation (2) among executives where *Uncertain* is equal to one. When *SigGETR* is my variable of interest (Column 1), the coefficient is insignificant (-0.2483, p -value > 0.10). When *SigCVGETR* is my variable of interest (Column2), the coefficient is negative and significant (-0.7771, p -value < 0.01).³⁵ These results are consistent with the results in Table 3, but slightly stronger.

Columns 3 and 4 of Table 4 provide estimates of Equation (2) among executives where *Uncertain* is equal to zero. When *SigGETR* is my variable of interest (Column 3), the coefficient is insignificant (0.0396, p -value > 0.10). When *SigCVGETR* is my variable of interest (Column4), the coefficient is negative and marginally significant (-0.2981, p -value < 0.10). These results are still consistent with Table 3, but much weaker. Overall, these results suggest that executives who influence the variation of

³⁵ The odds ratios of these statistics suggest that under uncertainty executives who influence the level (variation) of firm tax strategy are 22 (54) percent less likely to be promoted than executives who do not influence the level (variation) of firm tax strategy.

firm tax strategy are less likely to be promoted compared to those who do not influence firm tax strategy.³⁶ Also, given the fact that under uncertainty the coefficients are more negative gives support for H2.³⁷

Overall, my results reject H1 and I conclude that there are negative labor market consequences to executive influence on firm tax strategy.³⁸ These negative labor market consequences are consistent with executive influence on firm tax strategy being perceived as executives focusing on non-core activities of the firm.^{39, 40} These results

³⁶ In untabulated analysis, I re-estimate Equation (2) using demotion, *Demote* (see Appendix A for variable calculation), as my dependent variable. Among my full sample, the coefficient on *SigCVGETR* is positive and marginally significant (0.2846, p -value < 0.10). This weakly suggests that executives who influence variation of firm tax strategy are also more likely to be demoted.

³⁷ In untabulated analysis, I re-estimate Equation (2) when *Uncertain* = 1 and when *Uncertain* = 0 using seemingly unrelated estimation, which allows me to test coefficients across models (see Weesie 1999). Using both *SigGETR* and *SigCVGETR* as my variable of interest, I find that the coefficients are not significantly different when *Uncertain* = 1 compared to when *Uncertain* = 0 (p -values > 0.10). This suggests that while uncertainty does lead the labor market to more fully consider executive influence on firm tax strategy, it does not have a statistically significant influence.

³⁸ Since executives with an accounting or finance background may have more ability and reason to influence firm tax strategy, in untabulated analysis I split my high uncertainty sample into executives with an accounting or finance background and those without. I continue to find a negative and significant (p -value < 0.05) coefficient on *SigCVGETR* regardless of background and an insignificant (p -value > 0.10) coefficient on *SigGETR* regardless of background.

³⁹ Prior research has suggested that executives could use a very aggressive tax strategy to obfuscate the firm's activities and divert funds for their own benefit (Desai and Dharmapala 2006). This could also lead to negative labor market consequences. However, Dyreng et al. (2010) show that executives who influence firm tax strategy do not also influence selling, general, and administrative expenses through which such diversion of funds would likely flow. Further, I find that executives who encourage consistent tax strategies also face negative labor market consequences; not just executives who encourage aggressive or inconsistent tax strategies (see the Direction of Executive Influence on Firm Tax Strategy additional analysis in section V).

⁴⁰ If executives are using tax strategy to manage earnings, this could signal to the labor market that an executive is prone to manipulate information which could lead to negative labor market consequences. However, an earnings management story is inconsistent with my result that firms with executives who influence firm tax strategy have lower *ROA* than other firms as earnings management should on average increase earnings. Further, in untabulated analysis, I include accruals, discretionary accruals, or executive

are not consistent with executive influence on firm tax strategy being perceived as executives increasing the return to shareholders using all available tools.⁴¹ I find results consistent with H2 suggesting that executive influence on firm tax strategy is additional information the labor market uses when there is uncertainty regarding the performance and characteristics of the executive.⁴²

influence on accruals or discretionary accruals as an additional control in Equation 2. Doing so has no impact on the sign or significance of my main results (Table 3 and Columns 1 and 2 of Table 4).

⁴¹ Though I do not find evidence consistent with a maximization of return using all avenues, it is still possible that under certain circumstances the labor market could view executives' influence on firm tax strategy positively. In untabulated analysis, I examine two possible sub-samples where this is more likely: well-known executives (Lefkowitz 2000; Bol 2011), and cash strapped firms. Among these groups, the coefficients on *SigCVGETR* are still negative and significant, suggesting that the labor market is not responding to the tax strategy but to executive focus on non-core activities.

⁴² In untabulated additional analysis, I estimate manager fixed effects on overall firm performance, core performance, and non-core performance. Including this influences as an additional control has no impact on the sign or significance of my results.

5. ADDITIONAL ANALYSIS

5.1 Alternative Methodology to Estimate Executive Influence

One limitation of my methodology for estimating executive influence on firm tax strategy is that it requires executives to work at two firms. This limitation greatly reduces my sample and could limit the generalizability of my results. Accordingly, I use an alternative method that allows me to estimate executive influence on firm tax strategy for a much larger sample of executives. Specifically, I leverage the fact that executives who work for multiple firms overlap with executives who only work for one firm, allowing me to estimate fixed effects for both groups (see Abowd et al. 1999 and Graham et al. 2012 for a complete description of the analysis). I still require executives to be at a firm for at least three years allowing them time to influence firm tax strategy. This alternative method allows me to estimate *ExecInfluence* for 15,703 executives who work for a single firm.

For the 15,703 executives who work for a single firm, I create two new measures of labor market consequences because these executives do not have a firm move to analyze. First, I define *Promote2* as an executive starting out as a non-CEO and becoming a CEO at the same firm (Magnusson and Boggs 2006). Second, to consider executives pushed out of the labor market, I define *ForcedOut* as an indicator variable equal to one for executives who leave the labor market before age 60 (Brickley 2003; Engel et al. 2003). Prior research has shown that executives who leave the labor market after age 60 are, on average, retiring and leaving the labor market voluntarily. While

executives who leave the labor market before age 60 are likely being forced out (Parrino 1997; Brickley 2003; Engel et al. 2003).

I re-estimate Equation (2) using *Promote2* or *ForcedOut* as my dependent variable using the sample of executives who only work for one firm. I restrict the sample to executives whose terminal year in the labor market is before 2012. This restriction removes executives who are still currently in the labor market and, accordingly, whose labor market consequences are still unknown. When *Promote2* is my dependent variable, I restrict my sample to executives who began their tenure at the firm as non-CEOs who can be promoted, and I remove *PriorCEO* as a control variable because it is used to create *Promote2*. When *ForcedOut* is my dependent variable I remove *Age* as a control variable as it is used to define *ForcedOut*.⁴³

As shown in Columns 1 and 2 of Table 5, when *SigGETR* or *SigCVGETR* is my variable of interest and *Promote2* is my dependent variable, the coefficient is negative and significant (-0.3695, p -value < 0.01, -0.2119, p -value < 0.05, respectively). These results suggest that executives who influence firm tax strategy are less likely to be promoted to CEO. As shown in Column 3 of Table 5, when *SigGETR* is my variable of interest and *ForcedOut* is my dependent variable, the coefficient is insignificant (0.1169, p -value > 0.10). As shown in Column 4 of Table 5, when *SigCVGETR* is my variable of interest and *ForcedOut* is my dependent variable, the coefficient is positive and significant (0.1761, p -value < 0.01). These results suggest that executives who influence

⁴³ In addition, I remove *Tenure* as a control variable when predicting *Promote2* or *ForcedOut* because executives who are promoted to CEO or not forced out of the labor market will have longer tenure than other executives. This could lead the dependent variable to determine values of a control variable rather than the other way around.

firm tax strategy are more likely to be forced out of the labor market. Overall, the results analyzing executives who work for a single firm are consistent with my main results in Table 3, suggesting that my results are generalizable to all executives.⁴⁴

In my main analyses, I measure executive influence on firm tax strategy over a time period both before and after the labor market consequences are measured. Executive influence on firm tax strategy should be a consistent personal characteristic like personality, and the time period over which I measure it should not affect my results. In this test using executives who work for one firm and *ForcedOut* as my dependent variable, executives' influence on firm tax strategy is measured exclusively before labor market consequences, supporting my argument that the time period over which I measure executives' influence on firm tax strategy does not impact my results.

5.2 Alternative Non-Core Activity

I have suggested that a negative relation between executive influence on firm tax strategy and labor market consequences is consistent with the view that these executives are focusing on non-core activities of the firm. To verify that non-core activity focus is the reason these executives who influence firm tax strategy have negative labor market consequences, I examine the labor market consequences of executives who influence a different non-core activity. While I am not aware of any other archival proxies for non-core focus, I suggest that the decision to lease or buy an asset when that decision has no

⁴⁴ In untabulated additional analysis, I examine the impact of *Uncertain* on executives at only one firm. Theoretically, uncertainty should not apply to executives within a firm because the board of directors at the firm knows these individuals personally, so their performance and characteristics should always be known. Consistent with this idea, I find that uncertainty does not increase the strength of the relation between executive influence on firm tax strategy and promotion.

impact on the future cash flows, earnings, or performance of the firm could also indicate non-core activity focus. While there is no research regarding executive influence on the decision to lease or buy as there is regarding executive influence on firm tax strategy, the decision to lease or buy would be a non-core decision as long as it has no impact on the accounting or economics of the transaction.

I measure the decision to lease or buy an asset, *LeasePercent*, as the ratio of total liabilities from capitalized leases to total liabilities. By only looking at capitalized leases, I make sure that the underlying economics and reporting of the transaction are the same regardless of the decision to buy or lease. I then re-estimate Equation (1) using *LeasePercent* as the dependent variable and determine which executives significantly influence the decision to lease or buy an asset, *SigLease*. I find that 11.7 percent of executives in my sample significantly (p -value < 0.05) influence the decision to lease or buy an asset. When I re-estimate Equation (2) using *SigLease*, I find a negative and significant coefficient on *SigLease* (-0.5324, p -value < 0.01). This suggests that executives who influence the decision to lease or buy assets are less likely to be promoted than executives who do not influence the decision to lease or buy assets. This provides further evidence consistent with the idea that executives face negative labor market consequences for focusing on non-core activities of the firm.⁴⁵

⁴⁵ Further, I note that *SigLease* and *SigCVGETR* are positively and significantly correlated (0.0763, p -value < 0.01), suggesting that they are capturing a similar underlying construct which I argue is non-core activity focus.

5.3 Gallemore et al. (2014) Sample

As part of their analysis, Gallemore et al. (2014) examine the turnover of CEOs and CFOs for up to three years after a firm was implicated in a tax shelter. They find that the levels of turnover among firms implicated in a tax shelter were not statistically different from a matched set of firms not implicated in a tax shelter. However, executive turnover in the short-term can be limited by executive contracts. To determine if the results of Gallemore et al. (2014) are consistent with my results, I examine the executives in the Gallemore et al. (2014) study who did turnover to determine their labor market consequences.

Gallemore et al. (2014) has a sample of 119 firms implicated in a tax shelter and 119 matched firms. Of these 119 matched pairs, there are 7 matched pairs for which executives in both firms of the matched pair left the firm, worked at another firm, and are in Execucomp. Of the executives associated with the tax shelter firms, 22.2 percent were promoted ($Promote = 1$) and 55.6 percent were demoted ($Demote = 1$).⁴⁶ Of the matched executives, 20.0 percent were promoted and 10.0 percent were demoted. The demotion percentage was significantly larger for those associated with a tax shelter (p -value < 0.05).

Of the 119 matched pairs from Gallemore et al. (2014), there are 51 matched pairs for which executives from both firms of the matched pair left the firm, did not work at another firm, and are in Execucomp. Of these executives associated with tax

⁴⁶ *Demote* equals one if the executive was a CEO at their first job but not at their second unless the second firm has at least twice the *MVE* as the first firm. Also, *Demote* equals one if the executive remains in the same level of position (CEO or non-CEO) but moved to a firm with half the *MVE* as the first firm. See Appendix A for more details.

shelter firms, 45.5 percent were forced out of the labor market (*ForcedOut* = 1). Of the matched executives not associated with a tax shelter, 31.0 percent were forced out. The difference between these two numbers is statistically significant (p -value < 0.05). Overall, these results suggest that executives associated with a tax shelter face negative labor market consequences. These results are consistent with my main results (Table 3) and with executives influence on firm tax strategy signaling executive focus on non-core activities of the firm. These results also suggest one consequence of a firm being implicated in a tax shelter, something Gallemore et al. (2014) were not able to identify even though a recent survey suggests that there should be some negative consequences (Graham et al. 2014).

5.4 Direction of Executive Influence on Firm Tax Strategy

My hypotheses do not differentiate between executives who increase or decrease a particular firm tax strategy, but instead just focus on those who influence firm tax strategy regardless of direction. It could be the case that the labor market views executive influence on firm tax strategy differently depending on the direction of influence. Accordingly, I split *ExecInfluence* into positive and negative influence.⁴⁷ As shown in Column 1 of Table 6, I split *SigGETR* into positive and negative influence (*PosGETR* and *NegGETR*, respectively) among my full sample and find an insignificant coefficient regardless of direction (-0.1043, p -value > 0.10 for *PosGETR* and -0.0705, p -value > 0.10 for *NegGETR*). As shown in Column 2 of Table 6, I split *SigCVGETR* into

⁴⁷ Of the executives influencing the level of firm tax strategy, 51 percent increase the level and 49 percent decrease the level. Of the executives influencing the variation of firm tax strategy, 54 percent increase the variation and 46 percent decrease the variation.

positive and negative influence (*PosCVGETR* and *NegCVGETR*, respectively) and find a negative and significant coefficient regardless of the direction of influence on tax strategy (-0.5211, p -value < 0.01 for *PosCVGETR* and -0.4130, p -value < 0.05 for *NegCVGETR*). Overall, these results are consistent with the labor market responding to executives focusing on non-core activities and not to possible cash or firm performance outcomes of a particular tax strategy.

6. CONCLUSION

In this paper, I examine whether executive influence on firm tax strategy has labor market consequences. Prior research has shown that executives influence firm tax strategy (Dyreng et al. 2010), but does not examine whether there are any consequences to these executives because of their influence on firm tax strategy. I hypothesize that executive influence on firm tax strategy could signal to the labor market that executives are not focusing on core-activities of the firm. Alternatively, executive influence on firm tax strategy could signal that executives are maximizing the return to shareholders using all tools available to them. Further, executive influence on firm tax strategy may not be considered unless there is uncertainty regarding the performance and characteristics of the executive.

My results suggest that executives who influence the variation of firm tax strategy face negative labor market consequences, which is consistent with the idea that executives who influence firm tax strategy are viewed as focusing on non-core activities of the firm. Further, my results are stronger among executives whose performance and characteristics are uncertain to the labor market. In additional analysis, I demonstrate that my results hold with alternative methods of estimating executive influence on firm tax strategy and alternative measures of labor market consequences. I also demonstrate that executives who influence the decision to lease or buy assets, an alternative non-core activity, also face negative labor market consequences.

This paper furthers our understanding of firm tax strategy and executive influence on firm tax strategy. By examining the labor market consequences of executive influence on firm tax strategy, I show executive influence on firm tax strategy is generally viewed negatively by the labor market. This furthers our understanding of the role executives play in firm tax strategy by suggesting that executives who influence firm tax strategy are not focusing on the core activities of the firm. Also, this shows that executives who influence firm tax strategy are doing so because of idiosyncratic differences and not just differences in incentives. This paper also furthers the growing literature examining the consequences of firm tax strategy. I am able to show one consequence of firm tax strategy: that executives who influence firm tax strategy face negative labor market consequences.

Finally, this paper furthers our understanding of the executive labor market. By showing that the executive labor market responds differently to executives who influence firm tax strategy while holding firm performance constant, I show that the executive labor market cares not just how successful an executive is but also the process the executive uses to gain that success. I also provide empirical support for the idea that executives face negative labor market consequences when focusing on non-core activities.

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APPENDIX A

VARIABLE DEFINITIONS (ALPHABETICAL)

Variable	Definition
<i>Advertising</i>	Advertising expense (adx) scaled by net sales (sale).
<i>Association</i>	An indicator variable equal to one if the executive has been a part of a professional association per BoardEx as this is a signal of executive social connections.
<i>Background</i>	An indicator variable equal to one if the executive has a background, whether work related or academic, in accounting or finance per BoardEx.
<i>Capex</i>	Capital expenditures (capx) scaled by gross property, plant, and equipment (ppeg).
<i>CVGETR</i>	The coefficient of variation of the GAAP effective tax rate. <i>CVGETR</i> is calculated over a three year period from year $t-2$ to year t and is the standard deviation of the ratio of total income tax expense divided by pretax book income all divided by the mean of the same ratio, total income tax expense divided by pretax book income (McGuire et al. 2013).
<i>Connections</i>	The number of boards of directors of public companies that the executive has sat on per BoardEx. This data is not available for all years in my sample. Accordingly, I cannot match this to the number of boards the executive had been on when the labor market was examining them. However, as these numbers are very sticky and I want a consistent measurement, I measure this variable in 2014 for all executives. In untabulated analysis, I find that my results are inferentially the same if I use the earliest data available (usually 2002) instead of 2014.
<i>CONTROL</i>	An array of control variables used in Equation (1), consisting of <i>Advertising</i> , <i>Capex</i> , <i>OptionExpense</i> , <i>Foreign</i> , <i>Intangible</i> , <i>Leverage</i> , <i>Size</i> , <i>NOL</i> , <i>PPE</i> , <i>SGA</i> , and <i>R&D</i> .
<i>Demote</i>	An indicator variable equal to one if the executive was demoted when changing jobs. A job change is considered a demotion if the executive was a CEO at their first job but is not at their second job. However, if the <i>MVE</i> of the first firm is less than half the <i>MVE</i> of the second firm, no longer being CEO is not considered a demotion. I also consider the job move a demotion if the executive keeps a similar title (CEO or non-CEO) but is now working at a firm that is half the size or less of the first firm.
<i>Doctorate</i>	An indicator variable if the executive has a doctorate degree.

<i>Elite</i>	An indicator variable equal to one if the executive attended an elite educational institution per BoardEx. This is a proxy for information and social connections. I define elite education institutions as those listed in the 2002 US News and World Reports top 20 universities, top 15 law schools, or top 15 business schools similar to prior research (Useem and Karabel 1986; Finkelstein 1992): Brown University, California Institute of Technology, Columbia University, Cornell University, Dartmouth College, Duke University, Emory University, Georgetown University, Harvard University, Johns Hopkins University, Massachusetts Institute of Technology, New York University, Northwestern University, Princeton University, Rice University, Stanford University, University of California-Berkeley, University of California-Los Angeles, University of Chicago, University of Michigan, University of Notre Dame, University of Pennsylvania, University of Texas at Austin, University of Virginia, Washington University in St. Louis, and Yale University.
<i>ETR</i>	The effective tax rate, a measure of firm tax strategy. It is measured as either <i>GETR</i> or <i>CVGETR</i> .
<i>EXEC</i>	An array of executive fixed effects.
<i>ExecCharacteristics</i>	An array of executive characteristics control variable consisting of <i>Connections</i> , <i>Age</i> , <i>Gender</i> , <i>Tenure</i> , <i>Masters</i> , <i>Doctorate</i> , <i>Association</i> , <i>Elite</i> , <i>Background</i> , <i>PriorCEO</i> , and <i>InternationalExp</i> .
<i>ExecInfluence</i>	The influence an executive has on firm tax strategy. Measured from estimates of executive fixed effects estimating Equation (1). It consists of <i>SigGETR</i> when <i>GETR</i> is the dependent variable of Equation (1) and of <i>SigCVGETR</i> when <i>CVGETR</i> is the dependent variable of Equation (1).
<i>FIRM</i>	An array of firm fixed effects.
<i>FirmAge</i>	The number of years the firm has appeared in Compustat until year t.
<i>FirmCharacteristics</i>	An array of firm characteristic control variables consisting of <i>ROA</i> , <i>MarketSize</i> , and <i>FirmAge</i> .
<i>ForcedOut</i>	An indicator variable representing if the executive was forced out of the job market before age 60. This is a cutoff commonly used in prior research (Engel et al. 2003; Brickley 2003).
<i>Foreign</i>	An indicator variable equal to one if the firm has positive foreign income (fi).
<i>Gender</i>	An indicator variable equal to one if the executive is female per BoardEx.
<i>GETR</i>	The GAAP effective tax rate. Measured as total income tax expense (txt) scaled by pretax income (pi) less special items (spi). Negative values are set to 0. Values above 1 are set to 1.
<i>Intangible</i>	Intangible assets (intang) scaled by total assets (at).
<i>InternationalExp</i>	The natural log of the average international income (fi) over the past three years of the first firm the executive worked for.
<i>LeasePercent</i>	The ratio of total liabilities from capital leases (dclo) to total liabilities (dlc + dltt).
<i>Leverage</i>	The ratio of total liabilities (dlc + dltt) to total assets (at).
<i>MarketSize</i>	The natural log of <i>MVE</i> .
<i>Masters</i>	An indicator variable equal to one if the executive has a masters or professional degree per BoardEx.

<i>MVE</i>	The common share price at fiscal yearend (<i>prcc_f</i>) times the common shares outstanding used for basic earnings per share (<i>cshpri</i>).
<i>NegGETR</i>	Indicator variable equal to one if the executive has a significant influence on <i>GETR</i> (<i>SigGETR</i> = 1) and the fixed effect coefficient estimate from Equation (1) for that executive is negative.
<i>NegCVGETR</i>	Indicator variable equal to one if the executive has a significant influence on <i>CVGETR</i> (<i>SigCVGETR</i> = 1) and the fixed effect coefficient estimate from Equation (1) for that executive is negative.
<i>NOL</i>	An indicator variable equal to one if the firm has a positive tax loss carryforward value on their books (<i>tlcf</i>).
<i>Old</i>	Indicator variable equal to one if the executive during the last year at his/her first job was in the top tercile of age of executives during the last year at their first jobs. Age is measured in years based on the executive birthdate in Execucomp with missing values being filled with the birthdate from BoardEx.
<i>OptionExpense</i>	Estimated option expense. Calculated as the average annual value realized from exercise of options by executives ($(\text{optosby} + \text{optosey}) / 2$) divided by the percent of total options owned by executives (sum of options owned by executives from Execucomp / $(\text{optosey} * 1000)$) scaled by average assets $(100 * (\text{at}_{t-1} + \text{at}_t) / 2)$.
<i>PosGETR</i>	Indicator variable equal to one if the executive has a significant influence on <i>GETR</i> (<i>SigGETR</i> = 1) and the fixed effect coefficient estimate from Equation (1) for that executive is positive.
<i>PosCVGETR</i>	Indicator variable equal to one if the executive has a significant influence on <i>CVGETR</i> (<i>SigCVGETR</i> = 1) and the fixed effect coefficient estimate from Equation (1) for that executive is positive.
<i>PPE</i>	Gross property, plant, and equipment (<i>ppeg</i>) scaled by total assets (<i>at</i>).
<i>PriorCEO</i>	An indicator variable equal to one if the executive was a CEO at his or her first job per Execucomp.
<i>Promote</i>	An indicator variable equal to one if the executive was promoted when changing jobs. A job change is considered a promotion if the executive is a CEO at the second job but was not at the first job. However, if the <i>MVE</i> of the second firm is less than half the <i>MVE</i> of the first firm, becoming a CEO is not considered a promotion. I also consider the job move a promotion if the executive keeps a similar title (CEO or non-CEO) but is now working at a firm that is at least twice the size of the first firm.
<i>Promote2</i>	An indicator variable equal to one if an executive was internally promoted to CEO from any other position (Magnusson and Boggs 2006).
<i>PT_ROA</i>	Pretax return on assets, measured as pretax income (<i>pi</i>) scaled by lagged total assets (<i>at</i>).
<i>R&D</i>	Research and development expense (<i>xrd</i>) scaled by net sales (<i>sale</i>).
<i>ROA</i>	Return on assets. Measured as net income (<i>ni</i>) scaled by total assets (<i>at</i>).
<i>SGA</i>	Selling, general, and administrative expense (<i>xsga</i>) scaled by net sales (<i>sale</i>).

<i>SigCVGETR</i>	Executives who have a significant influence on firm tax strategy as measured by <i>CVGETR</i> . Measured as executives who have a statistically significant (p -value < 0.05) fixed effect when estimating Equation (1) with <i>CVGETR</i> as the dependent variable.
<i>SigGETR</i>	Executives who have a significant influence on firm tax strategy as measured by <i>GETR</i> . Measured as executives who have a statistically significant (p -value < 0.05) fixed effect when estimating Equation (1) with <i>GETR</i> as the dependent variable.
<i>SigLease</i>	Executives who have a significant influence on the decision to lease or buy assets as measured by <i>LeasePercent</i> . Measured as executives who have a statistically significant (p -value < 0.05) fixed effect when estimating Equation (1) with <i>LeasePercent</i> as the dependent variable.
<i>Size</i>	The natural log of total assets (at).
<i>Tenure</i>	The number of years the executive was listed at the first firm per Execucomp.
<i>Uncertain</i>	An indicator variable representing executives whose characteristics are uncertain in the labor market. It is equal to one if <i>Connections</i> is equal to zero.
<i>YEAR</i>	An array of year fixed effects.
<i>Young</i>	Indicator variable equal to one if the executive at the last year at his/her first job was in the bottom tercile of age of executives in the last year at their first jobs. Age is measured in years based on the executive birthdate in Execucomp with missing values being filled with the birthdate from BoardEx.

APPENDIX B

TABLES

TABLE 1
Sample Selection

Sample Criteria	Executives
Executives in Execucomp from 1992 – 2013	41,605
Remove executives who do not work for at least three years at 2 or more firms	-39,686
Require fixed effect regression variables	-132
Executives with fixed effect estimates	1,787
Remove executives with concurrent jobs	-121
Remove executives at more than 2 jobs	-111
Require regression variables	-159
Final Sample	1,396

TABLE 2
Summary Statistics

Panel A – Equation (1) Sample						
Variable	<i>n</i>	Mean	StdDev	25 th Pct	50 th Pct	75 th Pct
<i>GETR</i>	28,784	0.302	0.161	0.231	0.329	0.379
<i>CVGETR</i>	30,468	0.393	0.494	0.040	0.135	0.665
<i>Advertising</i>	31,918	0.012	0.168	0.000	0.000	0.009
<i>Capex</i>	31,918	0.126	0.110	0.064	0.097	0.154
<i>OptionExpense</i>	31,918	0.007	0.053	0.000	0.000	0.001
<i>Foreign</i>	31,918	0.451	0.498	0.000	0.000	1.000
<i>Intangible</i>	31,918	0.147	0.181	0.000	0.071	0.235
<i>Leverage</i>	31,918	0.250	0.215	0.090	0.232	0.360
<i>Size</i>	31,918	7.627	1.797	6.387	7.553	8.849
<i>NOL</i>	31,918	0.341	0.474	0.000	0.000	1.000
<i>PPE</i>	31,918	0.561	0.413	0.228	0.476	0.825
<i>SGA</i>	31,918	0.204	0.205	0.059	0.176	0.300
<i>R&D</i>	31,918	0.046	1.352	0.000	0.000	0.031

Panel B – Equation (2) Sample						
Variable	<i>n</i>	Mean	StdDev	25 th Pct	50 th Pct	75 th Pct
<i>Promote</i>	1,396	0.436	0.496	0.000	0.000	1.000
<i>SigGETR</i>	1,396	0.132	0.338	0.000	0.000	0.000
<i>SigCVGETR</i>	1,396	0.259	0.438	0.000	0.000	1.000
<i>Connections</i>	1,396	1.729	2.185	0.000	1.000	3.000
<i>Young</i>	1,396	0.347	0.476	0.000	0.000	1.000
<i>Old</i>	1,396	0.348	0.477	0.000	0.000	1.000
<i>Gender</i>	1,396	0.055	0.228	0.000	0.000	0.000
<i>Tenure</i>	1,396	5.403	2.631	3.000	5.000	7.000
<i>Masters</i>	1,396	0.544	0.498	0.000	1.000	1.000
<i>Doctorate</i>	1,396	0.037	0.188	0.000	0.000	0.000
<i>Association</i>	1,396	0.256	0.436	0.000	0.000	1.000
<i>Elite</i>	1,396	0.388	0.487	0.000	0.000	1.000
<i>Background</i>	1,396	0.379	0.485	0.000	0.000	1.000
<i>PriorCEO</i>	1,396	0.198	0.399	0.000	0.000	0.000
<i>InternationalExp</i>	1,396	2.208	2.411	0.000	1.406	4.211
<i>MarketSize</i>	1,396	7.680	1.721	6.562	7.675	8.779
<i>ROA</i>	1,396	0.035	0.096	0.006	0.040	0.075
<i>FirmAge</i>	1,396	28.415	17.192	12.000	26.000	46.000

TABLE 2 (Continued)
Summary Statistics

Panel C – Means By Executive Influence						
Variable	(1) <i>SigGETR</i> = 1 n = 184	(2) <i>SigCVGETR</i> = 1 n = 361	(3) <i>SigGETR</i> = 0 <i>SigCVGETR</i> = 0 n = 925	(1) – (3)	(2) – (3)	(1) – (2)
<i>Promote</i>	0.435	0.385	0.457	-0.023	-0.072 **	0.050
<i>SigGETR</i>	1.000	0.205	0.000			
<i>SigCVGETR</i>	0.402	1.000	0.000			
<i>Connections</i>	2.179	1.684	1.659	0.520 ***	0.025	0.495 **
<i>Young</i>	0.342	0.332	0.356	-0.013	-0.023	0.010
<i>Old</i>	0.375	0.346	0.348	0.027	-0.002	0.029
<i>Gender</i>	0.022	0.047	0.063	-0.041 **	-0.016	-0.025
<i>Tenure</i>	5.315	5.296	5.425	-0.110	-0.128	0.019
<i>Masters</i>	0.587	0.560	0.534	0.053	0.026	0.027
<i>Doctorate</i>	0.043	0.030	0.037	0.007	-0.006	0.013
<i>Association</i>	0.250	0.249	0.252	-0.002	-0.003	0.001
<i>Elite</i>	0.462	0.432	0.364	0.098 **	0.068 **	0.030
<i>Background</i>	0.386	0.385	0.374	0.012	0.011	0.001
<i>PriorCEO</i>	0.228	0.180	0.201	0.027	-0.021	0.048
<i>InternationalExp</i>	2.405	2.105	2.203	0.202	-0.098	0.300
<i>MarketSize</i>	7.575	7.461	7.754	-0.178	-0.293 ***	0.115
<i>ROA</i>	0.027	0.020	0.042	-0.015 **	-0.022 ***	0.007
<i>FirmAge</i>	27.005	27.247	28.925	-1.920	-1.679	-0.241

Variables are as defined in Appendix A.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ and represents the significance of a two-tailed t-test difference of means.

TABLE 3
Promotion and Executive Influence on Firm Tax Strategy

Dependent Variable = <i>Promote</i>	(1)	(2)
<i>SigGETR</i>	-0.0869 (0.614)	
<i>SigCVGETR</i>		-0.4692*** (0.001)
<i>Connections</i>	0.1012*** (0.001)	0.1015*** (0.001)
<i>Young</i>	0.3045** (0.036)	0.2869** (0.049)
<i>Old</i>	0.0335 (0.825)	0.0297 (0.845)
<i>Gender</i>	-0.0767 (0.760)	-0.0918 (0.715)
<i>Tenure</i>	-0.0203 (0.394)	-0.0212 (0.374)
<i>Masters</i>	0.1764 (0.196)	0.1746 (0.202)
<i>Doctorate</i>	0.3908 (0.212)	0.3616 (0.251)
<i>Association</i>	0.2075 (0.144)	0.2117 (0.137)
<i>Elite</i>	-0.1845 (0.186)	-0.1586 (0.258)
<i>Background</i>	-0.1376 (0.301)	-0.1434 (0.283)
<i>PriorCEO</i>	-0.7627*** (0.000)	-0.7820*** (0.000)
<i>InternationalExp</i>	0.0198 (0.488)	0.0204 (0.477)
<i>MarketSize</i>	-0.4621*** (0.000)	-0.4729*** (0.000)
<i>ROA</i>	-0.2362 (0.710)	-0.3917 (0.542)
<i>FirmAge</i>	0.0048 (0.202)	0.0045 (0.233)
Constant	3.0300*** (0.000)	3.2416*** (0.000)
Observations	1,396	1,396
Area Under ROC Curve	0.709	0.715
Goodness of Fit <i>p</i> -value	0.139	0.145

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; p -values are included in parentheses.

Results shown are from estimating Equation (2).

Variables are as defined in Appendix A.

TABLE 4
Executive Uncertainty, Promotion, and Executive Influence on Firm Tax Strategy

	High Uncertainty		Not High Uncertainty	
	<i>(Uncertain = 1)</i>		<i>(Uncertain = 0)</i>	
	(1)	(2)	(3)	(4)
<i>SigGETR</i>	-0.2483 (0.403)		0.0396 (0.856)	
<i>SigCVGETR</i>		-0.7771*** (0.001)		-0.2981* (0.091)
<i>Connections</i>			0.0636* (0.097)	0.0644* (0.092)
<i>Young</i>	0.5100** (0.026)	0.4927** (0.034)	0.1551 (0.421)	0.1410 (0.465)
<i>Old</i>	0.0946 (0.704)	0.1318 (0.599)	-0.0089 (0.964)	-0.0182 (0.926)
<i>Gender</i>	-0.1139 (0.778)	-0.0991 (0.804)	-0.0977 (0.766)	-0.1251 (0.704)
<i>Tenure</i>	-0.0287 (0.513)	-0.0280 (0.526)	-0.0087 (0.765)	-0.0097 (0.738)
<i>Masters</i>	0.1883 (0.417)	0.2121 (0.367)	0.2132 (0.225)	0.2044 (0.246)
<i>Doctorate</i>	-0.6363 (0.340)	-0.7674 (0.245)	0.8592** (0.022)	0.8549** (0.023)
<i>Association</i>	-0.0104 (0.970)	0.0548 (0.844)	0.3488** (0.043)	0.3398** (0.049)
<i>Elite</i>	-0.3730 (0.146)	-0.3486 (0.178)	-0.0512 (0.765)	-0.0257 (0.881)
<i>Background</i>	-0.2164 (0.373)	-0.2686 (0.275)	-0.1136 (0.493)	-0.1145 (0.490)
<i>PriorCEO</i>	-0.0829 (0.804)	-0.1513 (0.655)	-1.0703*** (0.000)	-1.0772*** (0.000)
<i>InternationalExp</i>	0.0868* (0.086)	0.0928* (0.069)	-0.0233 (0.511)	-0.0230 (0.517)
<i>MarketSize</i>	-0.5240*** (0.000)	-0.5541*** (0.000)	-0.4666*** (0.000)	-0.4728*** (0.000)
<i>ROA</i>	-0.1705 (0.876)	-0.4455 (0.687)	-0.1272 (0.875)	-0.1945 (0.811)
<i>FirmAge</i>	0.0092 (0.135)	0.0095 (0.124)	0.0010 (0.843)	0.0005 (0.922)
Constant	3.1618*** (0.000)	3.5215*** (0.000)	3.3622*** (0.000)	3.5208*** (0.000)
Observations	551	551	845	845
Area Under ROC Curve	0.713	0.729	0.727	0.731

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; p -values are included in parentheses.

Results shown are from estimating Equation (2) splitting the sample upon *Uncertain*.

Variables are as defined in Appendix A.

TABLE 5
Executives Who Work for Only One Firm

	Dependent Variable =		Dependent Variable =	
	<i>Promote2</i>		<i>ForcedOut</i>	
	(1)	(2)	(3)	(4)
<i>SigGETR</i>	-0.3695*** (0.007)		0.1169 (0.123)	
<i>SigCVGETR</i>		-0.2119** (0.048)		0.1761*** (0.004)
<i>Connections</i>	0.6968*** (0.000)	0.6958*** (0.000)	-0.1515*** (0.000)	-0.1507*** (0.000)
<i>Young</i>	-0.2068* (0.062)	-0.2155* (0.051)		
<i>Old</i>	0.4601*** (0.000)	0.4544*** (0.000)		
<i>Gender</i>	-1.0461*** (0.000)	-1.0468*** (0.000)	1.2200*** (0.000)	1.2152*** (0.000)
<i>Masters</i>	-0.1492 (0.125)	-0.1484 (0.127)	0.3612*** (0.000)	0.3598*** (0.000)
<i>Doctorate</i>	-0.6820*** (0.003)	-0.6751*** (0.003)	-0.3740*** (0.001)	-0.3793*** (0.001)
<i>Association</i>	-0.0027 (0.981)	-0.0007 (0.995)	-0.1157* (0.087)	-0.1176* (0.082)
<i>Elite</i>	-0.0044 (0.968)	-0.0128 (0.906)	-0.0886 (0.184)	-0.0856 (0.200)
<i>Background</i>	-0.6047*** (0.000)	-0.6079*** (0.000)	0.3679*** (0.000)	0.3681*** (0.000)
<i>PriorCEO</i>			-1.0560*** (0.000)	-1.0583*** (0.000)
<i>InternationalExp</i>	-0.0401** (0.034)	-0.0401** (0.033)	-0.0028 (0.801)	-0.0034 (0.760)
<i>MarketSize</i>	-0.1494*** (0.000)	-0.1444*** (0.000)	0.0187 (0.302)	0.0189 (0.295)
<i>ROA</i>	-1.6309*** (0.002)	-1.5935*** (0.003)	-0.8705*** (0.008)	-0.8550*** (0.009)
<i>FirmAge</i>	0.0169*** (0.000)	0.0168*** (0.000)	-0.0273*** (0.000)	-0.0271*** (0.000)
Constant	-1.9661*** (0.000)	-1.9977*** (0.000)	1.9819*** (0.000)	1.9534*** (0.000)
Observations	9,380	9,380	10,859	10,859
Area Under ROC Curve	0.795	0.795	0.719	0.719

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; p -values are included in parentheses.

Results shown are from estimating Equation (2) with various alternative dependent variables as noted in the table using samples created using an alternative method to estimate executive influence on firm tax strategy.

PriorCEO (*Young* and *Old*) is not included as a control variable when *Promote2* (*ForcedOut*) is the dependent variable because it is used to create the dependent variable.

Variables are as defined in Appendix A.

TABLE 6
Executives with a Positive or Negative Influence on Firm Tax Strategy

Dependent Variable = <i>Promote</i>			
	(1)		(2)
<i>PosGETR</i>	-0.1043 (0.662)	<i>PosCVGETR</i>	-0.5211*** (0.003)
<i>NegGETR</i>	-0.0705 (0.761)	<i>NegCVGETR</i>	-0.4130** (0.024)
<i>Connections</i>	0.1012*** (0.001)	<i>Connections</i>	0.1009*** (0.001)
<i>Young</i>	0.3046** (0.036)	<i>Young</i>	0.2861** (0.050)
<i>Old</i>	0.0338 (0.823)	<i>Old</i>	0.0309 (0.839)
<i>Gender</i>	-0.0777 (0.757)	<i>Gender</i>	-0.0926 (0.712)
<i>Tenure</i>	-0.0203 (0.394)	<i>Tenure</i>	-0.0218 (0.361)
<i>Masters</i>	0.1766 (0.196)	<i>Masters</i>	0.1747 (0.202)
<i>Doctorate</i>	0.3916 (0.212)	<i>Doctorate</i>	0.3638 (0.248)
<i>Association</i>	0.2080 (0.143)	<i>Association</i>	0.2117 (0.137)
<i>Elite</i>	-0.1847 (0.186)	<i>Elite</i>	-0.1571 (0.263)
<i>Background</i>	-0.1374 (0.301)	<i>Background</i>	-0.1428 (0.285)
<i>PriorCEO</i>	-0.7623*** (0.000)	<i>PriorCEO</i>	-0.7802*** (0.000)
<i>InternationalExp</i>	0.0199 (0.486)	<i>InternationalExp</i>	0.0207 (0.469)
<i>MarketSize</i>	-0.4621*** (0.000)	<i>MarketSize</i>	-0.4722*** (0.000)
<i>ROA</i>	-0.2345 (0.712)	<i>ROA</i>	-0.4240 (0.512)
<i>FirmAge</i>	0.0048 (0.205)	<i>FirmAge</i>	0.0045 (0.236)
Constant	3.0302*** (0.000)	Constant	3.2408*** (0.000)
Observations	1,396	Observations	1,396
Area Under ROC Curve	0.709	Area Under ROC Curve	0.715

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; p -values are included in parentheses.

Results shown are from estimating Equation (2) splitting *ExecInfluence* into positive and negative influence.

Variables are as defined in Appendix A.