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Study Finds CEO Sports Hobbies Offer Insight on Their Approach to Tax Risk

FOR IMMEDIATE RELEASE

Lakewood Ranch, Fla. — CEOs that prefer risky sports are also more likely to take a risky approach to tax planning, according to a recent study published by the American Association of Accounting.

“CEOs can set the tone of a company’s tax planning decisions, and many stakeholders are interested in the extent to which CEOs are willing to expose their companies to increased risk,” says Shuqing Luo, co-author of the study and an associate professor of accounting at the University of Hong Kong.

“Evidence in the psychology literature indicates that sports hobbies reflect the personal risk preferences of the participants. We wanted to examine how a CEO’s personal risk preferences, as reflected in the sports they enjoy, are also reflected in the tax planning of that CEO’s company.”

To that end, the researchers collected data on 732 CEOs of U.S. companies. The researchers had self-reported data on sports hobbies from the CEOs, and used nationwide sports injury rates to assess each sport’s risk level. For example, windsurfing and motor sports were relatively riskier, while jogging and boating presented much lower levels of risk.

The researchers used four measures to assess the extent to which each CEO’s company was aggressive in tax planning, including the amount of tax each company paid relative to its profit and whether the companies set up tax shelters.

The researchers conducted a series of tests to determine whether there was any relationship between the sports and tax planning data.

“We found that firms managed by CEOs with riskier sports hobbies were more aggressive in their tax planning,” Luo says.

“This association was particularly pronounced for CEOs who had greater financial incentives and greater decision-making power,” says Lirong Shi, co-author of the study and an assistant professor of accounting at University of Nottingham Ningbo.

The researchers note that the finding is valuable for a wide array of business stakeholders.
“For example, if you’re a board member, and you’re hiring a CEO, it can be difficult to get a candid assessment of a candidate’s risk preferences,” Luo says. “Our work suggests that looking at a candidate’s sports preferences can provide some insight into the candidate’s risk preferences. Similarly, investors, analysts, bankers, and others may be interested in having an additional means of assessing the risk preferences of a company’s top executives.

“There are also applications for the accounting community in particular,” Luo says. “For example, this may be a valuable tool for auditors when assessing a client’s risk profile.”

The paper, “CEO Sports Hobby and Firms' Tax Aggressiveness,” is published in the Journal of the American Taxation Association. Additional co-authors on the paper are Terry Shevlin, a professor of accounting at the University of California, Irvine; and by Aimee Shih of the National University of Singapore.

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