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CEO Overseas Experiences and Corporate Financialization: Evidence from China

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Abstract

Recently, Chief Executive Officers (CEOs) with overseas experiences have shown the "star effect", according to upper echelons theory, CEOs' overseas experiences might relate to corporate financialization, but there is little evidence of whether and how CEOs' overseas experiences affect it. Given the increasing trend of hiring overseas CEO's in China, the study fills in the gap in the literature by examining the effect of CEOs with overseas experiences on corporate financialization. In sum, the study employs a two-way fixed effect model to investigate the relationship between CEOs with overseas experiences and corporate financialization, a conclusion that remains valid after a series of robustness tests. CEOs with overseas experiences primarily inhibit corporate financialization by alleviating financing constraints and improving investment efficiency. Furthermore, the study finds that compared to overseas work experience, overseas study experience has a more pronounced inhibitory effect on corporate financialization. Female CEOs and young CEOs with overseas experiences exhibit a more significant inhibitory effect on corporate financialization. Cross-sectional tests show that the inhibitory effects are more pronounced in SOEs and non-polluting industries and the eastern regions, especially in the highly marketized provinces in China.

Keywords: Overseas CEO; corporate financialization; financing constraints; investment efficiency; upper echelons theory

1. Introduction

Corporate financialization refers to a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production (Krippner, 2005). An increasing number of real Chinese companies are inclined towards corporate financialization to alleviate financing constraints and boost profits. the average allocation of financial assets escalates from 5.37% to 8.27% between 2011 and 2021, signifying an escalating trend towards financialization. Excessive financialization can lead to false economic prosperity and even trigger financial crises, posing risk to the high-quality development of the Chinese economy (Du et al., 2018; Wang et al., 2017). Therefore, it is essential to investigate the factors that influence corporate financialization.

Anecdotally, the trends of hiring overseas CEO are obvious in emerging market countries, such as Africa (68%), Latin America (54%), and Asia (31%)[4]. In 2001, China's accession to the World Trade Organization marked a significant milestone in China's global connections. A noticeable "star effect" is associated with overseas CEOs in China. The trend of hiring CEOs with overseas experience is noticeable; the percentage increased from 5.62% to 12.68% between 2010 and 2021 no comma but remains far below the global average. According to upper echelons theory (Hambrick & Mason, 1984), corporate strategic choices and decision-making behaviors are significantly influenced by the background characteristics of CEOs. Overseas CEOs are typically perceived as intellectually adept leaders proficient in cutting-edge technology and advanced management concepts. These executives bring distinct advantages in knowledge structure, mindset, global interpersonal networks, communication skills, and collaborative abilities, consequently influencing corporate financialization. Therefore,

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[4] A study undertaken by Study.et involved 283 CEOs representing the largest companies on every continent, in accordance with the Forbes Global 2000 company ranking: https://www.study.eu/article/the-academic-backgrounds-of-the-worlds-most-powerful-ceos

we are motivated to investigate whether and how CEOs' overseas experiences affect corporate financialization in China.

Accordingly, studies have concentrated mainly on the influences of CEOs' characteristics on corporate financialization from two aspects: Firstly, the characteristics of the Top Management Team (TMT), including TMT gender diversity, connectedness, tenure and successor, stability, interface, and compensation(Agha et al., 2021; Bilal et al., 2023; Han et al., 2022; Ren et al., 2023; C. Yang et al., 2021); Secondly, the characteristics of CEO, including CEO tenure, poverty imprints, financial career, market sentiment, social capital, CEO reputation and celebrity effect, (Lartey et al., 2020; Liu et al., 2023; Qi & Fang, 2023; Weng & Chen, 2017; C. Yang et al., 2021), among others.

Nevertheless, the direct effect of CEOs with overseas experiences on corporate financialization is not well-investigated. Existing literature often treats TMT as a unified entity. However, different members within TMT possess distinct authority, and considering them as a homogeneous group may lead to contradictory conclusions. CEO is the pivotal leader within TMT, typically influencing decision-making processes. This study argues that CEOs' background characteristics are crucial in shaping corporate financialization decisions. Analyzing CEOs' overseas experiences is considered effective in portraying the backgrounds of TMT and reducing research discrepancies stemming from variations in authority. Moreover, prior literature could not answer whether and how CEOs with overseas experiences affect corporate financialization. Understanding the effect of CEOs with overseas experiences on corporate financialization is very important under the trend of hiring overseas CEOs, representing an innovative aspect of this study.

The study empirically investigates the effect of CEOs with overseas experiences on corporate financialization, the mediating effect of financing constraints and investment efficiency, and the moderating effects of various factors, including different types of overseas, gender and age. The study selects nonfinancial A-share Chinese companies from 2010-2021 as the original sample, aims to enhance and advance the role of CEOs with overseas experiences in corporate financialization.

The arrangement for the remaining sections is as follows: Section Two encompasses the literature review and hypothesis, Section Three details the research data and variables, Section Four presents empirical analysis results, and the final section concludes the entire paper.

2. Literature review and hypothesis

2.1 CEO overseas experiences and corporate financialization

Upper echelons theory (Hambrick & Mason, 1984) predicts that the cognitive foundation and values of TMTs, as manifested in observable traits, play a crucial role in shaping their interpretation and response to strategic situations, thereby influencing organizational performance (Díaz-Fernández et al., 2020; Ullah Khan et al., 2023), and this theory is supported in Chinese settings from many perspectives (Hao et al., 2021; L. Yang et al., 2023). As the top leader of TMT, CEO serves as the foremost influencer and the ultimate decision-maker for the firm's strategic goal (Wang et al., 2021). The CEO's characteristics effect on the firm's decisions and performance (Hao et al., 2021; Weng & Chen, 2017).

Having overseas experience is often indicative of an exceptional educational background and expertise. CEOs with overseas experiences are deemed to possess sophisticated management concepts, leading-edge professional and technical knowledge, high cultural sensitivity, and robust macro-control skills. Besides the related innovation performance (Cao et al., 2022), labor investment efficiency (Li et al., 2023), and foreign direct investment (Ding et al., 2022) benefits of CEOs' overseas experiences, the study supposes that those CEOs who have the overseas experiences will impact on corporate financialization.

Overseas CEOs in China are pivotal in driving corporate financialization, leveraging their unique perspectives to shift away from short-sighted and speculative behavior commonly seen in executives without international exposure. These leaders bring a wealth of professional expertise, emphasizing enhanced corporate governance and focusing on sustainable, long-term growth rather than immediate gains. Their global outlook, shaped by exposure to diverse cultural and regulatory frameworks, fosters a heightened awareness of the complexities of financialization. This awareness prompts them to adopt prudent financial strategies, mitigating the negative impacts of short-termism. Ultimately, these overseas CEOs contribute to a more resilient and forward-thinking corporate landscape in China, prioritizing strategic transformation, long-term development, and high-quality investments while steering clear of the risks associated with excessive financialization. Hence, the first hypothesis developed:

H1. CEO overseas experiences will inhibit the development of corporate financialization

2.2 CEO overseas experiences, financing constraints and corporate financialization

The development of the real economy requires substantial financial support. However, due to the inadequacy of financial markets in developing countries, firms generally face credit constraints. The degree of financing constraints affects the allocation of financial assets by firms. When firms face weaker financing constraints, it is less challenging for firms to raise funds, and managers expect to have more disposable cash flow. This reduces liquidity pressures and, in turn, increases firms' propensity to make financial investments (Dudley, 2021).

There is a substantial body of literature demonstrating that CEOs with overseas experiences can effectively mitigate the financing constraints faced by firms. On one hand, it expands access to resources: CEOs with overseas experience are scarce resources in the Chinese managerial market. Thus, they often attract more attention from government agencies, institutional investors, social media, and financial analysts (Sun et al., 2023). On the other hand, it helps firms to build an information advantage. CEOs with overseas experiences enable firms to obtain more accurate information, which reduces information asymmetry and thus reduces the difficulty and cost of financing (Ding et al., 2022; Hu et al., 2022). Hence, the second hypothesis is developed:

H2. Financing constraints mediates the relationship between CEO overseas experiences and corporate financialization

1.3 CEO overseas experiences, investment efficiency and corporate financialization

In the face of declining market demand and diminishing returns on investment in tangible businesses, many enterprises have sought new avenues for profit growth, including venturing into sectors like finance and real estate through cross-industry arbitrage (Li et al., 2023). The need for alternative profit sources drives this strategic shift towards financialization. Exposure to diverse cultures and business environments enables them to accumulate rich experiences and cultivate a broader global perspective. Drawing upon this global outlook, these CEOs demonstrate an ability to integrate resources on a global scale and formulate long-term sustainable investment strategies (Gu, 2022). By leveraging these skills, overseas CEOs contribute to reducing corporations' financialization levels.

The improved investment efficiency facilitated by overseas CEOs becomes a critical factor in mitigating the impact of declining market conditions on tangible businesses. This mediation role is pivotal, as it allows companies to navigate challenges more effectively and promotes a more balanced and sustainable approach to corporate financial strategies. Ultimately, the overseas CEOs' capability to enhance investment efficiency is a valuable mechanism for steering companies away from excessive financialization to pursue stable and enduring growth.

H3. Investment efficiency mediates the relationship between CEO overseas experiences and corporate financialization

3. Data and variables

3.1 Data sources

The study selects nonfinancial A-share Chinese companies from 2010-2021 as the original sample to examine the relationship between CEO overseas experiences and corporate financialization. To avoid the effects of abnormal operating enterprises, ST and *ST companies are excluded from the sample. All continuous variables are winsorized at 1% and 99% levels to eliminate extreme value effects. The final sample contains 4,408 firms with a total of 32,059 observations. All data were obtained from the China Stock Market & Accounting Research Database (CSMAR), which is the prevailing database in China-related studies (Gong et al., 2023).

3.2 Key variable definitions

The dependent variable is the corporate financialization level, following Song Jun & Lu Yang (2015) to measure the corporate financialization level in terms of the financial asset share, which means the ratio of financial assets to total assets. Among them, financial assets include trading financial assets, derivative financial assets, the net amount of short-term investments, the net amount of available-for-sale financial assets, the net income from held-to-maturity investments, other current liquid assets, the balance of investment properties, net amount of long-term equity investments. Following Zhang Chengsi & Zhang Butan (2016), measure the rate of financial income as the robust variable.

The independent variable is CEO overseas experiences, following Du Yong et al (2018) to measure CEO overseas experiences which refer to personnel who have studied or worked outside of mainland China and returned to the country to serve as a CEO. There CEO's overseas experiences are a dummy variable that equals if the CEO has overseas experiences, it is recorded as CEO=1; otherwise, CEO=0.

The mediating variables consist of two variables, the first one is financing constraints, which is indicative of the Sensitivity Ambiguity (SA) index (Hadlock & Pierce, 2010); the second one is investment efficiency, which develops the model to calculate it (Richardson, 2006). The control variables include corporate size (Size), corporate financial leverage (Lev), corporate capital intensity (Cap), corporate growth (Growth), corporate profitability (ROA), board size (Board), and ratio of independent directors (Indep).

Table 1: Variable definitions

Variable	Definition
Fin	Ratio of financial assets to total assets
CEO Fc Inv	CEO is the dummy variable that equals if the CEO has overseas experiences SA index, SA=-0.737*size+0.043*size2-0.040*age (Hadlock & Pierce, 2010) $Invest_{it} = \delta_0 + \delta_1 Growth_{it-1} + \delta_2 Lev_{it-1} + \delta_3 Cash_{it-1} + \delta_4 Age_{it-1} + \delta_5 Size_{it-1} + \delta_6 Ret_{it-1} + \delta_7 Invest_{it-1} + \sum Industry + \sum Year + \varepsilon_{it}$ (Richardson, 2006)
Size	Natural logarithm of total assets
Lev	Ratio of total debts to total assets
Cap	Ratio of fixed assets to total assets
Growth	The operating income growth rate
Roa	Ratio of net profit to total assets
Board	Natural logarithm of the number of directors on the board
Indep	Percentage of independent directors on the board

3.3 Descriptive statistics and correlation coefficient

The descriptive results of all variables indicate that the average value of corporate financialization is 0.0994, with a minimum value of 0 and a maximum value of 0.5873. This suggests variations in the level of financialization among different companies, with some experiencing substantial differences. The mean value for CEO overseas experiences is 0.0915, indicating that CEOs with overseas experiences constitute only 9.15% of the sample, with most CEOs lacking overseas experiences. Regarding control variables, the descriptive statistics align closely with previous studies conducted by other scholars.

Table 2: Descriptive statistics

Variables	N	Mean	Std.dev	Min	Max
Fin	32,059	0.0994	0.1187	0	0.5873
CEO	32,059	0.0915	0.2883	0	1
Size	32,059	22.067	1.2603	19.687	26.008
Lev	32,059	0.4032	0.2015	0.0487	0.8864
Cap	32,059	0.2144	0.1562	0.0033	0.6947
Growth	32,059	0.2195	0.9584	-0.9581	7.5316
ROA	32,059	0.0416	0.0622	-0.2606	0.2046
Board	32,059	2.8988	0.2447	2.3979	3.5264
Indep	32,059	0.3750	0.0528	0.3333	0.5714

The correlation coefficient matrix reveals that the correlation coefficient between the dependent variable and the independent variable has passed a statistical test at the 10% significance level. All other control variables, except for corporate size, have passed statistical tests at the 1% significance level. Therefore, the selection of control variables in this paper appears reasonable. Since correlation coefficients only indicate how variables are related and do not represent conclusions, further validation is needed through subsequent regression analyses. In addition, the paper conducted a multicollinearity Variance Inflation Factor (VIF) test, and the results show that all variables have VIF values below 10, with a mean VIF of 1.23. This suggests very weak multicollinearity in the model, indicating that it is unlikely to impact the results significantly.

Table 3: Correlation Coefficient

	Fin	CEO	Size	Lev	Cap	Growth	ROA	Board	ndep
Fin	1.000								
CEO	0.010*	1.000							
Size	-0.007	-0.020***	1.000						
Lev	-0.204***	-0.069***	0.496***	1.000					
Cap	-0.215***	-0.050***	0.175***	0.164***	1.000				
Growth	-0.027***	0.010*	0.130***	0.088***	-0.012**	1.000			
ROA	0.056***	0.014**	-0.041***	-0.371***	-0.094***	0.098***	1.000		
Board	-0.066***	-0.048***	0.420***	0.285***	0.161***	0.058***	-0.117***	1.000	
Indep	0.023***	0.031***	-0.002	-0.015***	-0.050***	0.003	-0.015***	-0.180***	.000

Note: ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

3. Empirical results

Firstly, the Hausman test with a p-value of 0 rejects the null hypothesis, suggesting the fixed-effects model is more appropriate. To mitigate the influence of year and industry variables on the research, enhancing the precision and reliability of the analysis, we simultaneously managed the effects of year and industry. This was achieved by applying a two-way fixed effects model to test the effect of CEOs with overseas experiences on corporate financialization. Then, it examines CEOs with overseas experience mechanisms on corporate financialization based on financing constraints and investment efficiency. Moreover, the study explores the moderating effect of CEO characteristics, such as the different types of overseas experiences, gender, and age, on corporate financialization. Finally, further research explores the differences between this effect from various cross-sections of ownership properties, industry categories, and regional economic development. Robustness tests and endogeneity tests validated all the conclusions.

4.1 Baseline results

This study employs a two-way fixed effects model to analyze hypothesis H1, following the methodology of prior research. The baseline regression model (1) is constructed as follows:

$$fin_{it} = \alpha_0 + \alpha_1 ceo_{it} + \alpha cv_{it} + \sum industy + \sum year + \varepsilon_{it} \quad (1)$$

model (1), fin_{it} denotes the degree of corporate financialization of company i in year t; ceo_{it} denotes whether company i hired a CEO with overseas experiences in the t year: 1 if yes, 0 otherwise; The control variables (cv_{it}) include a series of control variables; $\sum industy$ denotes industry fixed effects; $\sum year$ denotes year fixed effects, and ε_{it} denotes the disturbance term.

After the baseline regression, the study also attempts to conduct robustness tests by replacing the variables and switching the period, and endogeneity issue tests by lagging variables. Table 4 demonstrates the results of baseline regression, robustness, and endogeneity tests.

Column 2 in Table 4 reports the regression results indicating that the estimated coefficient for CEO overseas experiences is -0.0064, which is significantly negative at the 5% significance level. This suggests a negative correlation between CEO overseas experiences and corporate financialization.

To validate the robustness of the baseline regression results, this investigation conducts a series of robustness tests to test the sign and significance level of the overseas CEO. Firstly, there is no common standard for corporate financialization measurement, and different measurement methods may influence research conclusions. To ensure the conclusions' robustness, the study replaces financial assets with financial asset returns to measure corporate financialization, as shown in columns 3 and 4 of Table 4. Secondly, to reduce the impact of individual differences on company decision-making, the study replaces overseas CEOs with overseas TMT, as shown in the middle columns 5 and 6. Lastly, considering the impact of COVID-19, this study excludes observations from the years 2020 and 2021 for testing, as shown in column 7. The findings from these tests remain the fundamental conclusions of this study. H1 is thus confirmed.

The empirical results indicate a significant negative correlation between overseas CEOs and corporate financialization, suggesting that overseas CEOs will inhibit the lever of corporate financialization. The finding validates hypothesis H1 and further extends the conclusions of existing similar research(Chen et al., 2024; Ding et al., 2022; Hu et al., 2022). As mentioned in Section 2.1, overseas CEOs restrain the development of corporate financialization primarily because they can leverage a unique international perspective, steering clear of the short-sightedness and speculative behavior often observed in executives lacking international exposure. Through their global outlook and rich professional knowledge, these leaders emphasize strengthening corporate governance and focusing on sustainable long-term growth, thereby adopting prudent financial strategies to mitigate the negative impacts of short-termism.

Table 4 Baseline regression and robustness test

	(1) Fin	(2) BFIR	(3) NFIR	(4) Fin	(5) Fin	(6) Fin
CEO	-0.0064** (-2.99)	-0.0478*** (-3.33)	-0.0558*** (-3.64)			-0.0095*** (-3.70)
TMT1				-0.0018** (-2.36)		
TMT2					-0.0148** (-3.00)	
_Cons	-0.0501*** (-3.60)	-0.4701*** (-5.03)	-0.8422*** (-8.42)	-0.0538*** (-3.85)	-0.0517*** (-3.71)	-0.0400** (-2.51)
Cv	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
F	88.33	10.15	15.38	87.81	88.08	79.55
r^2_2	0.1211	0.0086	0.0115	0.1211	0.1212	0.1169
N	32059	32059	32059	32059	32059	24282

Note: This table reports the results of the robustness tests. The dependent variable in Column 2 refers to the financial asset rate, denoted as Fin. The dependent variable in Column 3 refers to the broad financial income rate, denoted as BFIR, which is defined as the sum of investment income, fair value changes, and other comprehensive income divided by operating profit. The dependent variable in Column 4 refers to the narrow financial income rate, denoted as NFIR, which is defined as the sum of investment income, fair value changes, and net exchange gains minus investment income from associates and joint ventures, divided by operating profit. The independent variable in Columns 5 and 6 refers to TMT overseas experiences, which are measured by the number of TMT with overseas experiences and the ratio of TMT with overseas experiences, respectively.

Column 7 reports the result for excluding the period of COVID-19. Year-fixed effects and industry-fixed effects are included. ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

4.2 Results of mediating effect

The study attempts to explain the channel through which overseas CEOs inhibit corporate financialization from the perspective of financing constraints and investment efficiency, respectively. The stepwise regression method is used to test H2 (MacKinnon et al., 2000). We estimate equation (2-1) and equation (2-2), where Model (2-1) is employed to examine the impact of the independent variable (ceo_{it}) on the mediating variable ($mv1_{it}$), here mv_{it} refers to financing constraints (fc_{it}) and investment efficiency (inv_{it}), respectively. If the coefficient β_1 is significant, then model (2-2) is used to simultaneously include both the independent variable (ceo_{it}) and the mediating variable ($mv1_{it}$) for analysis: if the coefficient γ_2 is significant and γ_1 is not, it indicates a complete mediating effect; however, if both γ_2 and γ_1 are significant, it suggests a partial mediating effect. If the coefficient γ_2 is not significant, it indicates that the mediating effect is not established.

$$m\,1_{it} = \beta_0 + \beta_1 ceo_{it} + \beta cv_{it} + \sum ind + \sum year + \varepsilon_{it} \qquad (2-1)$$

$$fin_{it} = \gamma_0 + \gamma_1 ceo_{it} + \gamma_2 mv1_{it} + \gamma cv_{it} + \sum ind + \sum year + \varepsilon_{it} \qquad (2-2)$$

The mediating regression results presented in Table 5 reveal the following: in column 3, examining the impact of overseas CEOs on financial constraints, the estimated coefficient is -0.0072, significantly negative at the 1% level. This suggests that overseas CEOs can alleviate corporate financing constraints, aligning with the findings of most scholars (Chen et al., 2024; Hu et al., 2022). In column 4, the coefficient of overseas CEO is significantly negative, while financing constraints are significantly positive. This indicates a partial mediating effect of financial constraints in the relationship between overseas CEOs and corporate financialization. That means, overseas CEOs can provide a stable and continuous cash flow level, reducing financing constraints, and thus effectively inhibiting corporate financialization. The study further conducted a bootstrap test, supporting the mediating effect of financial constraints and H2 is thus confirmed.

In column 5, examining the impact of overseas CEO on investment efficiency, the estimated coefficient is 0.0047, significantly positive at the 1% level. This suggests that overseas CEO can improve corporate investment efficiency. In column 6, the coefficient of both overseas CEO and investment efficiency are significantly negative. This indicates a partial mediating effect of investment efficiency in the relationship between overseas CEO and corporate financialization. That means overseas CEO can enhance investment efficiency thus effectively inhibiting corporate financialization. The study further conducted a bootstrap test and Sobel test, supporting the mediating effect of investment efficiency and H3 is thus confirmed.

Table 5: Results of mediating effects

	(1) Fin	(2) Fc	(3) Fin	(4) Inv	(5) Fin
CEO	-0.0064** (-2.99)	- 0.0072*** (-5.67)	-0.0055* (-2.57)	0.0047** * (4.64)	- 0.0082*** (-3.47)
Fc			0.1242*** (13.37)		
Inv					- 0.1377*** (-9.25)
_Cons	-0.0501*** (-3.60)	1.3343*** (159.92)	-0.2159*** (-11.61)	0.1247** * (18.65	0.0472** (3.01)
Cv	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
F	88.33	62.72	80.35	9.89	83.92
r^2_2	0.1211	0.1769	0.1287	0.0594	0.1294
N	32059	32059	32059	24571	24571

Note: Year-fixed effects and industry-fixed effects are included. ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

4.3 Overseas CEO and corporate financialization conditioning on different types of overseas CEO, gender, and age.

4.3.1 Different types of overseas CEO

Overseas CEO is categorized into two types: overseas study and overseas work. Regressions are conducted separately to discuss the differences in overseas CEO effects on corporate financialization. The results are shown in the first two columns of Table 6, in columns 2 and 3, the estimated coefficient for CEOs with overseas study experiences is -0.0093, significantly negative at the 1% level. In contrast, the estimated coefficient for CEOs with overseas work experiences is -0.0021. This indicates that overseas study CEO has a more substantial inhibitory effect on corporate financialization.

Several reasons may contribute to this observation: overseas study CEO, primarily in developed countries like the United States and the United Kingdom, exerts a more substantial inhibitory effect on corporate financialization than those with work experiences in less developed regions like Pakistan or Nigeria. The impact is attributed to institutional disparities, with more significant influence in developed countries. Overseas study experiences enhanemphasizing the significance of country/region disparities and skill development in this study.

4.3.2 Gender

CEO is categorized by gender as either male or female. Regressions are conducted separately to discuss the distinct impacts of overseas CEO on corporate financialization. The results are shown in the middle two columns of Table 6, in column 4, the estimated coefficient for female CEO with overseas experiences is -0.0292, significantly negative at the 1% level. In contrast, in column 5, the estimated coefficient for male CEO with overseas experiences is -0.0046, which is significantly negative at the 5% level. This indicates that female CEO with overseas experiences has a more substantial inhibitory effect on corporate financialization.

Several reasons may contribute to this observation: Female CEO's diverse perspectives, cultivated through exposure to multicultural environments, different markets, and business settings, fosters a deeper understanding of the global economy. Emphasizing social responsibility and sustainable development, female leaders prioritize factors beyond financial returns. Furthermore, females natural tendencies towards caution, attentiveness, and risk aversion contribute to a more careful approach to financial decisions. The inhibitory effect stems from a diverse perspective, a focus on social responsibility, and inherent prudence and risk aversion among female CEOs with overseas experiences.

4.3.3 Age

The study categorizes CEOs with overseas experiences based on age, distinguishing between young and old CEOs within the sample. Separate regressions are performed to examine the varying impacts of CEOs with overseas experiences on corporate financialization. The results are shown in the last two columns of Table 6, in column 6, the estimated coefficient for young CEOs with overseas experience is -0.0100, which is significantly negative at the 5% level. While the estimated coefficient for an old CEOs with overseas experience is -0.0047 and significantly at the 10% level in columns 7.

Several reasons may contribute to this observation: Young CEO's proclivity toward innovation and reform focuses on adaptable business models, emphasizing short-term financial gains and long-term market responsiveness. Additionally, young CEO is more familiar with emerging technologies that enables precise financial decisions through digital tools and data analytics, moving beyond the mere pursuit of scale expansion. The adaptability cultivated through overseas experiences enhances their learning ability, aiding in understanding global economic trends and making prudent decisions in corporate financialization. In essence, the combination of innovation, tech-savvy perspectives, and adaptability renders young CEO with overseas experiences instrumental in curbing excessive corporate financialization.

Table 6: Results of conditioning on different types of overseas, gender, and age

	(1) Study Fin	(2) Work Fin	(3) Female Fin	(4) Male Fin	(5) Young Fin	(6) Old Fin
CEO	-0.0093*** (-3.21)	-0.0021 (-0.84)	-0.0292*** (-3.43)	-0.0046** (-2.08)	-0.0100** (-2.51)	-0.0047* (-1.85)
_Cons	-0.0498*** (-3.58)	-0.0501*** (-3.60)	-0.0551 (-0.83)	-0.0412** (-2.72)	-0.0452 (-1.32)	-0.0459** (-2.78)
Cv	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
F	88.49	88.67	14.80	160.13	44.58	131.70
r^2_2	0.1211	0.1208	0.1821	0.1568	0.1629	0.1589
N	2040	1519	2109	29950	7838	24221

Note: Following the World Health Organization's definition, individuals aged 45 or younger are considered young, while those older than 45 are considered old. Year-fixed effects and industry-fixed effects are included. ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

4.4 Cross-sectional tests

This study further explores the differential impacts of overseas CEO on corporate financialization based on differences in corporate ownership property, industry category, and regional economic development.

4.4.1 Corporate ownership property

Chinese listed companies are classified by ownership into State-Owned Enterprises (SOEs) and non-State-Owned Enterprises (non-SOEs). This study divides all firms in the sample into SOEs and non-SOEs. Regressions are conducted separately to discuss the differences in overseas CEO effects on corporate financialization. The results are shown in the first two columns of Table 7, in columns 2 and 3, the estimated coefficient for overseas CEO in SOEs is -0.0138, which is significantly negative at the 5% level. In contrast, the estimated coefficient for overseas CEOs in non-SOEs is -0.0042, which is significantly negative at the 10% level. This indicates that CEO overseas experience in SOEs has a more substantial inhibitory effect on corporate financialization.

Several reasons may contribute to this observation: SOEs are closely linked to the government in China, forming a natural association. The government guarantees SOEs; sometimes, SOE CEOs may also hold government leadership positions. This helps ease the financial constraints of SOEs. In China's policy-driven market, SOEs exhibit strong political characteristics, where political functions often precede economic ones. As a result, SOEs face less profit-driven pressure and prioritize long-term stable development. CEO overseas experiences in SOEs have a notable inhibitory effect on corporate financialization, likely influenced by the inherent government-enterprise relationship and political characteristics of SOEs in China.

4.4.2 Industry category

Based on industry characteristics, firms are classified into Heavy-Pollution-Industry (HPI) and non-Heavy-Pollution-Industry (non-HPI). This study divides all firms in the sample into HPI and non-HPI. Regressions are conducted separately to discuss the differences in overseas CEO effects on corporate financialization. The results are shown in the middle two columns of Table 7, in columns 4 and 5, the estimated coefficient for overseas CEO in HPI is insignificant. In contrast, the estimated coefficient for overseas CEO in non-HPI is -0.0080, which is significantly negative at the 5% level. This indicates that overseas CEO in non-HPI has a more substantial inhibitory effect on corporate financialization.

Several reasons may contribute to this observation: HPI often faces stricter environmental regulations and higher social responsibility pressures. Overseas CEOs, who are more attuned to global sustainable development, are likely to prioritize adherence to regulations, reduce environmental and social risks, and emphasize corporate social responsibility rather than focus solely on the economic benefits of financialization. Overseas CEO exhibits a more significant inhibitory effect on corporate financialization in non-HPI.

4.4.3 Regional economic development

Differences in societal and economic development exist due to different resource endowments and policy support. The economic level and marketization degrees of regions affect the financial behaviors in such regions. The study classifies firms into three groups by their regions: eastern, central, and western regions, and then determines whether corporate financialization effects vary among regions. As shown in the last three columns of Table 7, in columns 6, 7, and 8, the estimated coefficient for overseas CEO in the eastern region is -0.0061, significantly negative at the 5% level. In contrast, the estimated coefficients for overseas CEO in the central and western regions are insignificant. This indicates that overseas CEO in the eastern region substantially inhibits corporate financialization, especially in economically developed and highly marketized provinces and cities in the eastern region, such as Shanghai, Zhejiang, Jiangsu, and Guangdong. In these areas, the estimated coefficient for overseas CEO in the eastern region is -0.0094, which is significantly negative at the 1% level.

Several reasons may contribute to this observation: companies face intense competition and innovation pressure in China's economically developed eastern region. Overseas CEO in this region possess a broad international perspective, focusing on global market competition and sustainable development. They prioritize innovation over short-term financialization. Additionally, robust government regulation on corporate social responsibility in the eastern region leads overseas CEO to emphasize ESG factors, guiding them to handle financialization cautiously to avoid adverse societal and environmental impacts. Overseas CEO in the eastern region significantly inhibits corporate financialization, driven by a global outlook and a commitment to sustainable practice.

Table 7: Cross-sectional tests

	(1) SO Es Fin	(2) Non- SOEs Fin	(3) HP I Fin	(4) Non- HPI Fin	(5) Easte rn regio n Fin	(6) Cen tral regi on Fin	(7) West ern regio n Fin
EO	- 0.0138** (- 2.92)	- 0.0042* (- 1.74)	- 0.0001 (- 0.02)	- 0.0080** (-3.16)	- 0.0061** (- 2.53)	- 0.0086 (- 1.46)	- 0.0122 (- 1.52)
Cons	0.08 42*** (3.9 0)	- 0.1116*** (- 5.19)	- 0.0713** (- 2.95)	- 0.0354* (-1.95)	- 0.0613*** (- 3.28)	- 0.0450 (1.3 6)	0.05 69 (1.60)
v	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ndustry	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ear	Yes 90.6 0 0.22 27 106 36	Yes 114.9 6 0.157 0 2142 3	Yes 97.7 9 0.17 67 947 1	Yes 116.91 0.1523 22588	Yes 127.8 9 0.163 7 2269 2	Yes 24.1 6 0.13 62 514 1	Yes 22.5 4 0.15 19 4089

Note: Year fixed effects and Industry fixed effects are included. ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

4. Further analysis

The phenomenon of financialization among tangible businesses is widespread in China. So, what economic consequences can be observed when enterprises are enthusiastic about financialization? The current literature shows that the motivations behind corporate financialization include risk diversification and profit enhancement (Gong et al., 2023; Krippner, 2005). Therefore, this study takes corporate financialization as the independent variable to examine its impact on corporate risk and enterprise value. The degree of ROA fluctuation during the observation period is used in this study to measure corporate risk; a higher level of earnings volatility indicates a higher level of corporate risk.

Additionally, ROA is employed to assess company value. The regression results presented in Table 8 reveal the following: In columns 2 and 3, regardless of Risk1 or Risk2, corporate financialization is significantly positive to corporate risk-taking, this implies that a higher degree of financialization corresponds to an increased level of risk-taking. In column 4, corporate financialization is significantly negative to corporate value, although firms may engage in financialization to pursue profits, in reality, it is perceived as detrimental to corporate value.

Table 8: Economic effect of corporate financialization

	(1) Risk1	(2) Risk2	(3) ROA
Fin	0.0202*** (10.90)	0.0378*** (11.06)	-0.0141*** (-4.10)
_cons	0.1255*** (27.74)	0.2325*** (27.85)	-0.1733*** (-20.60)
cv	YES	YES	YES
Industry	YES	YES	YES
Year	YES	YES	YES
F	45.56	46.99	21.63
r^2_2	0.0740	0.0740	0.2108
N	23390	23390	23390

Note: This table reports the results of the economic effect of corporate financialization. The dependent variable in Columns 2 and 3 refers to corporate risk-taking, denoted as Risk1 and Risk2 respectively. In econometric terms, subtracting the annual industry average from ROA to obtain Adj_Roa (as shown in equation 3-1) mitigates the impact of industry and cycles. In equation (3-2) and (3-3), using three-year intervals (from year t to t+2) as observation periods, the standard deviation and range of industry-adjusted ROA (i.e., Adj_Roa) are calculated rolling to derive Risk1 and Risk2 indicators, measuring the level of enterprise risk (John et al., 2008), the equations are presented below:

$$Adj\_Roa_{it} = Roa_{it} - \frac{1}{x}\sum_{k=1}^{x} Roa_{it} \qquad (3-1)$$

$$Risk1_{it} = \sqrt{\frac{1}{T-1}\sum_{t=1}^{T}\left(Adj_{Roa_{it}} - \frac{1}{T}\sum_{t=1}^{T} Adj_{Roa_{it}}\right)^2} \, | T = 3 \qquad (3-2)$$

$$Risk2_{it} = Max(Adj\_Roa_{it}) - Min(Adj_{Roa_{it}}) \qquad (3-3)$$

The dependent variable in Column 4 is a corporate value, denoted as ROA, which is defined as the ratio of net profit to total assets. The independent variable is Fin, measured by the ratio of financial assets to total assets. Control variables include corporate size (Size), corporate financial leverage (Lev), corporate capital intensity (Cap), corporate growth (Growth), board size (Board), and ratio of independent directors (Indep). Year-fixed effects and industry-fixed effects are included. ***, **, and * respectively denote the statistical significance at the 1%, 5%, and 10% level, t statistics in parentheses.

5. Discussion

Given the limited data available, this study only examined the impact of CEO overseas experiences on corporate financialization and the mechanism without covering differences in aspects such as tenure. Additionally, institutional and cultural differences resulting from CEOs with overseas study or work experiences may influence corporate decision-making at the individual level. Moreover, to reduce research noise, this paper focused solely on the behavior of CEOs as individual decision-makers. However, with the optimization of corporate governance structures, especially the increasing significance of heterogeneity in executive teams, the impact on corporate decision-making becomes more pronounced. Future research could explore factors such as the tenure of CEOs with overseas experience and the impact of institutional and cultural differences resulting from overseas study or work on their influence on corporate financialization. Furthermore, attention should be given to the impact of the heterogeneity of executive teams on corporate decision-making, providing a more comprehensive perspective on the interrelationships between these factors in the corporate decision-making process for a deeper understanding.

6. Conclusion

China's economy is undergoing a critical period of transformation, and excessive development of corporate financialization can lead to companies deviating from their core businesses in the real economy, posing challenges to future corporate development and macroeconomic stability. Understanding the factors influencing corporate financialization has become a hot topic in current research. Therefore, based on the imprinting theory and the upper echelons theory, this paper delves into the impact of CEO overseas experiences on corporate financialization, using all A-share listed companies in China from 2010 to 2021 as the research sample.

The study reveals that CEO overseas experiences significantly inhibit corporate financialization, and this conclusion holds even after controlling for endogeneity. Further analysis of the underlying mechanisms indicates that CEO overseas experiences primarily suppress corporate financialization by reducing financing constraints and improving investment efficiency. Moreover, the study finds that compared to overseas work experiences, overseas study experiences have a more pronounced inhibitory effect on corporate financialization. Female CEOs and young CEOs with overseas experiences exhibit a more significant inhibitory effect on corporate financialization. Additionally, exploring the heterogeneity in the impact of CEO overseas experiences on corporate financialization reveals that in state-owned enterprises, non-heavy-polluting industries, and especially in the eastern regions, particularly in highly marketized provinces, the inhibitory influence of CEO overseas experiences on corporate financialization is more evident.

7. Recommendation

Firstly, for the management itself, CEO overseas experience should clearly understand the cognitive awareness formed in international experiences, including cultural and institutional differences. They should critically evaluate past experiences, recognizing both strengths and limitations. In the decision-making process, vigilance should be maintained, acknowledging the imprint mechanisms that personal experiences may create. This awareness helps minimize the negative impact of past experiences, ensuring more objective and comprehensive decision-making. In driving the process of corporate financialization, a reasonable assessment of the current situation, consideration of business sustainability and development needs, and avoidance of adverse effects on core business due to excessive financialization are essential. Additionally, introducing third-party risk assessment agencies specifically focused on independently assessing the financial investment decisions led by CEO can reduce unilateral decision-making, ensuring decisions are more objective and aligned with the company's overall interests.

Secondly, for the company itself, when recruiting the CEO, a thorough understanding of candidates' overseas study and work experiences is crucial for shaping different management styles. Understanding a CEO's overseas study experience reveals academic background and expertise, aiding adaptation to diverse industries and driving innovation. Gender and age differences influence leaders' attitudes and strategies toward financialization, so companies should selectively choose leaders based on development needs. CEO overseas experience have advantages in cultural adaptability. However, companies should carefully consider their ability to integrate into Chinese culture, ensuring excellent communication and leadership skills in the business environment to facilitate the success of local operations.

Finally, government regulatory departments need to promptly improve capital market systems, promote state-owned enterprise reforms, and reduce direct government intervention in decision-making. Eliminating differences in the allocation of public resources between SOEs and non-SOEs will help mitigate the superiority complex formed by CEO overseas experience due to government resource advantages. Simultaneously, oversight should ensure the formation of more cautious financial decisions. In addition, in the eastern regions, especially in provinces with higher marketization levels, CEO has greater decision-making autonomy, and this with overseas experiences makes it more likely to exert influence. Therefore, government regulatory departments should strengthen supervision and constraint mechanisms on CEO decision-making autonomy while advancing marketization to ensure a balanced, prudent decision-making process that contributes to the healthy development of corporate financialization.

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