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CEO OVERSEAS EXPERIENCE, CULTURAL DISTANCE AND CORPORATE FINANCIALIZATION: THE MEDIATING EFFECT OF ESG INVESTMENT IN CHINA

Minyu Zheng, Normaziah Mohd Nor, & Zariyawati Mohd Ashhari
School of Business and Economics,
Universiti Putra Malaysia, 43400, UPM, Serdang, Selangor, MALAYSIA

Corresponding author: mazzziah@upm.edu.my

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ABSTRACT

Recently, Chief Executive Officers (CEOs) with overseas experiences show 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 overseas CEOs affect it. Given the increasing trend of hiring overseas CEO 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 and SYS-GMM model to investigate the relationship between CEOs with overseas experiences and corporate financialization. Our findings still hold after the endogeneity disposal with a two-way fixed effect regression by lagging variables, Two-Stage Least Squares (2SLS), Heckman two-stage regression, and the propensity score matching (PSM). Moreover, the cultural distance between the host countries where CEO worked or received education and China inhibits corporate financialization, especially, Individualism vs Collectivism (IC) distance makes the most significant contribution. Furthermore, overseas CEOs primarily inhibit corporate financialization by improving ESG investment.

Keywords: Overseas CEO, corporate financialization, cultural distance, ESG investment, upper echelons theory

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 financial profits. Between 2012 and 2022, 97.34% of real enterprises in China were involved in the allocation of financial assets, with the proportion of financial assets in total assets rising from 6.13% to 10.56%.

In China, most real enterprises invest funds in financial assets rather than in the production of their main business. This may lead to a decline in resource allocation efficiency and subsequently cause misallocation of resources. Secondly, the risky and leveraged nature of financial assets will increase enterprises' financial instability risk. Moreover, enterprises may emphasize short-term financial returns due to financialization, neglecting their main business's long-term growth and technological innovation, thus damaging corporate value. Furthermore, the increasing participation of physical enterprises in financialization may lead to false economic prosperity and even trigger financial crises, posing a risk to the high-quality development of the Chinese economy (Du Yong et al., 2018; Wang Hongjian et al., 2017). Therefore, it is essential to investigate the factors that influence corporate financialization.

In emerging market countries, the trends of hiring overseas CEO are obvious, such as Africa (68%), Latin America (54%), Asia (31%) . In the case of China, since joining the World Trade Organization (WTO) in 2001, there has been a significant step forward in China's global connections, and overseas CEOs have had a notable "star effect" in China. From 2012 to 2019, the number of Chinese students studying abroad increased from 399,600 to 703,500, and the proportion of those returning after their studies also rose from 68.29% to 82.49% . Against this backdrop, the percentage of overseas CEOs hired in China has increased from 5.88% to 13.98% between 2012 and 2022. Although this trend is clear, it still falls 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, we are motivated to investigate whether and how overseas CEOs affect corporate financialization in China.

Previous research has 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; D. 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, scholars have yet indepth explored the effects of overseas CEO on corporate financializaiton.

This paper examines the effects of overseas CEO on corporate financialization in China. as the backbone of an enterprise's development, a CEO's personal ability affects the entire enterprise's development to a certain extent. In the context of deepening global economic integration, Chinese companies are

increasingly likely to hire overseas CEOs. This trend reflects the need for top managers with international leadership styles and broader perspectives. Specifically, cultural differences in more developed host countries can significantly influence CEO's cognition and decision-making, which in turn impacts the financial decisions of companies. This study aims to investigate the influence of overseas CEOs' cognitive structures and the cultural distance in the host countries where CEOs worked or were educated on the progression of corporate financialization, and considers the importance they place on the comprehensive development of Environmental, Social, and Governance (ESG). Through this research perspective, we aim to enhance the existing literature and provide a new viewpoint for understanding how companies formulate and implement their financial strategies in a globalized context.

Given China's status as the foremost emerging economic market globally, our research utilises data from Chinese listed companies—excessive development issues, including resource misallocation and burgeoning financial risks, mar this rapid growth trajectory. Concurrently, the increasing trend of Chinese students studying abroad and subsequently returning, along with the growing inclination for Chinese CEOs to seek education overseas, significantly influences corporate governance transformations. With China leading the world in the number of students it sends overseas, this pattern is expected to continue for some time. These factors coalesce to render the Chinese market an exemplary setting for empirical analysis, akin to a natural lab. It offers a wealth of distinctive real-world material and case studies for investigation.

The study uses balanced panel data from listed companies on the China A-share market from 2012 to 2022. The investigation initially utilizes the fixed effects model and the System Generalized Method of Moments (SYS-GMM) to explore the relationship between overseas CEOs and corporate financialization, then proceeds to confirm the stability of this finding through robustness tests. To address potential endogeneity issues, the study has conducted a two-way fixed effect regression by lagging variables, Two-Stage Least Squares (2SLS), Heckman two-stage regression, and the Propensity Score Matching (PSM). Additionally, the study investigates the influence of the cultural distance between the host countries where CEO has worked or educated and China on corporate financialization. It also assesses the impact coefficients and the relative significance of various cultural distance dimensions on corporate financialization. Finally, the study then applies stepwise regression, Sobel tests, and Bootstrap methods to verify further the mediating role of ESG investment in overseas CEO exhibiting corporate financialization.

This study contributes to the literature in several aspects. First of all, it contributes to the literature on CEO experiences by showing that CEOs' overseas experience affect corporate financialization. In particular, this study complements the literature on CEO experiences (Lartey et al., 2020; Liu et al., 2023; C. Yang et al., 2021), by adding timely empirical evidence on the negative effects of CEOs' overseas experience on corporate financialization, which is grounded in upper echelons theory.

Secondly, although previous research has shown that talented overseas returnees increase OFDI (Ding et al., 2022); overseas CEO reduces financial misconduct risk (Gu, 2022); international experience of managers reduce the cost of equity capital (Hu et al., 2022), these studies have not deeply examined whether and how overseas CEO affects corporate financialization. This study fills this gap by using ESG investment as an intermediary variable to analyze how overseas CEO influences corporate financialization thoroughly.

Furthermore, this study constructs a comprehensive Cultural Distance Index using the standardized Euclidean distance method. It examines how the cultural distance between China and the host countries

of overseas CEO affects the process of corporate financialization. Additionally, this study separately analyzes the impact of different dimensions of cultural differences on corporate financialization and their relative importance, thereby deepening the understanding of cross-cultural influence. This study broadens the dimensions of research on corporate financialization and provides new theoretical perspectives on how cultural differences shape corporate strategies within the global business environment.

This study holds important implications for companies, investors, regulators, and researchers. Our findings demonstrate that companies employing overseas CEOs are more effective at curbing corporate financialization by enhancing ESG investments. The attributes of a CEO are critically important in business practices, particularly under the influence of globalization. When considering the appointment of a CEO without overseas experience, it is essential to recognize potential disadvantages, such as increased risks of financial misconduct. Therefore, boards should know overseas CEOs can significantly improve corporate governance effectiveness.

Moreover, our research can help investors assess risks associated with corporate financialization. This study also aids regulatory bodies in understanding business activities and the risks of financialization from the perspective of CEO characteristics. Specifically, regulators should focus on corporate financialization risks and require disclosing additional information, such as the CEO's international experience. Lastly, researchers should consider CEO attributes, particularly international experience, when evaluating risks related to corporate financialization.

The rest of this study is structured as follows: Section 2 discusses the related literature and the development of hypotheses. Section 3 outlines the model detailing data sources and variable measurements. Section 4 presents descriptive statistics, baseline regression, and robustness and endogeneity tests. Section 5 presents the regression of cultural distance and the relative importance analysis, and Section 6 provides the mediating effect of ESG investment. Conclusions are presented in Sections 7.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Overseas CEO 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 have an effect on the firm's decisions and performance (Hao et al., 2021; Weng & Chen, 2017).

In addition, existing literature shows having international experiences is often indicative of an exceptional educational background and expertise. Overseas CEOs 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 (W. 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 is developed:

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

Cultural Distance and Corporate Financialization

Since the launch of economic reforms and opening up in 1978, China has seen its economic framework and business philosophies evolve dramatically. Joining the World Trade Organization (WTO) marked a significant acceleration in this evolution, thrusting Chinese firms into the throes of global market competition and collaboration, prompting them to integrate international management practices and innovations. CEOs who have garnered education or professional experience in developed economies have often returned, infusing their organizations with sophisticated governance structures and operational strategies encountered abroad, thus reshaping operational paradigms within Chinese businesses.

Besides, prior literature indicates a strong correlation between a nation's economic maturity and corporate social responsibility engagement (Baughn et al., 2007; Hossain et al., 2016; Wanderley et al., 2008). In light of this, Chinese CEOs exposed to developed countries increasingly prioritize the environmental, social, and governance (ESG) criteria in their investment strategies. This approach stands in stark contrast to the traditional Chinese pursuit of immediate financial gain and could serve as a check on the impulse towards aggressive financialization.

CEOs returning from abroad face the challenge of reconciling these global practices with the distinctive characteristics of China's business milieu. Their transitional phase is marked by a push towards more accountable and transparent governance and an emphasis on sustainable growth. Such a stance is likely to decelerate the momentum of corporate financialization, aligning business practices with a more considered and enduring vision of corporate success in China's unique landscape.

Drawing from the referenced research, it is anticipated that CEOs who have been educated or have worked in host countries with superior cultural environments would exhibit a greater propensity towards bolstering ESG investment rather than pursuing corporate financialization. Thus, the second hypothesis is as follows:

H2. The cultural distance of overseas CEOs' host countries is negatively related to corporate financialization.

Overseas CEO, ESG and Corporate Financialization

In recent years, Environmental, Social, and Governance (ESG) investment strategies have become a focal point of attention among governments, corporations, and investors as a central component in driving corporate sustainability (S. Li et al., 2022). Existing literature widely acknowledges that adopting ESG investment strategies indicates a corporation's commitment to creating long-term value (F. Chen et al., 2024). Moreover, these strategies are more common and mature in developed countries (Foglia & Miglietta, 2024; Martinez Meyers et al., 2024; Pandey et al., 2024).

Upper echelons theory (Hambrick & Mason, 1984) further posits that an individual's experiences profoundly influence their cognition and decision-making. Overseas CEOs inherently possess advantages in understanding and implementing ESG principles due to their engagement with diverse cultural contexts and management practices. Such CEOs' overseas experiences endow them with a broader knowledge base and skill set, which may incline them to integrate advanced sustainable development concepts and practices into the management of domestic firms. Therefore, in a globalized business milieu, such international experience is pivotal for advancing the implementation of ESG strategies within local enterprises.

Signal theory (Spence, 1978) suggests that corporations communicate their governance quality or financial health through various actions, including ESG investments. Focusing on ESG can enhance market reputation (Murè et al., 2021) and improve corporate governance efficiency (Z. Chen et al., 2024; Wu et al., 2023).
Stakeholder theory (Freeman, 2010) posits that corporations should consider the interests of various stakeholders, including investors, employees, and the community. Better ESG performance demonstrates a commitment to stakeholder interests, which can attract more investment (Seifert et al., 2024; Yu et al., 2024). Corporate social responsibility (CSR) (Carroll, 1979) underscores a corporation’s responsibility towards society and the environment, with the proposition that engaging in responsible actions can yield positive societal contributions while benefiting from enhanced reputation and profitability (Fafaliou et al., 2022; Meng et al., 2023; Wong & Zhang, 2024)。

Drawing upon the aforementioned theoretical research, this paper posits that overseas CEOs are more inclined to elevate ESG investments to mitigate corporate financialization. Thus, the third hypothesis is as follows:

H3. ESG mediates the relationship between overseas CEO and corporate financialization..

DATA AND VARIABLES

Sample and Data

The study selects nonfinancial A-share Chinese companies from 2012-2022 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. Ultimately, we obtain a balanced panel data set with 13,343 observations from 1,213 listed companies. All data were obtained from the China Stock Market & Accounting Research Database (CSMAR), Hofstede Data, and Hua Zheng ESG Data.

Variables

(1) Dependent variable:
corporate financialization (CF). Following Song Jun & Lu Yang (2015) to measure the corporate financialization level in terms of the financial asset ratio. Financial assets include trading financial assets, derivative financial assets, net amount of short-term investments, net amount of available-for-sale financial assets, net income from held-to-maturity investments, other current liquid assets, balance of investment properties, net amount of long-term equity investments.

(2) Independent variables:
CEO overseas experiences (CEO). Following Du Yong et al (2018) to measure CEO overseas experiences which refers to personnel who have studied or worked outside of mainland China and returned to the country to serve as a CEO. There CEO overseas experiences is a dummy variable that equals if the CEO has overseas experiences, it is recorded as CEO=1; otherwise, CEO=0.
Culture distance (CD). The paper discussed the concept of cultural distance, specifically between the host country where CEO worked or received education and China. We use Hofstede national cultural dimension data to measure the cultural distance (Hofstede, 1984, 2016). Cultural distance includes explicitly six dimensions, namely Power Distance (PD), Individualism vs Collectivism (IC), Masculinity vs Femininity (MF), Uncertainty Avoidance (UA), Long Term vs Short Term Orientation (LO) and Indulgence vs Restraint (IR). The paper utilizes the measurement model of cultural distance between the host country and China (Kogut & Singh, 1988; Lankhuizen & De Groot, 2016), applied the Normalized Euclidean distance presented in Eq. (1) as follows:

$$CD_j = \frac{\frac{1}{6}\sum_{k=1}^{6}\left(C_k - C_{jk}\right)^2}{V_{ck}} \quad (1)$$

Where CD_j is the measure of distance between home country (refers to China) and host country where CEO worked or received education, K is the number of indicators of culture distinguished (indexed by K), here, K =6. C_k is China's score with respect to indicator K. C_{jk} is host country j's score with respect to indicator k, and V_{ck} the variance of indicator K over all countries in the sample.

(3) Mediating variable:
ESG investment (ESG): The Hua Zheng ESG rating system grades companies into nine levels based on their ESG performance namely: AAA, AA, A, BBB, BB, B, CCC, CC, C, denoting these levels from high to low as "9~1," in accordance with the practices of most researchers(Bai et al., 2022; X. Ren et al., 2023).

(4) Control variables:
Based on existing research and established practices, we selected these control variables including corporate size (Size), corporate financial leverage (Lev), corporate capital intensity (Cap), corporate growth (Growth), corporate profitability (ROA), board size (Board), ratio of independent directors (Indep).

Table 1

Variable definitions

Variables	Measurements	sources
Dependent variables		
CF	Ration of financial assets to total assets	CSMAR
Independent variables		
CEO	The dummy variable if the CEO has overseas experiences, that equals 1; 0 otherwise.	CSMAR
CD	The cultural distance between the host country where CEO worked	Hofstede

	or received education and China	
Control variables		
SIZE	Natural logarithm of total assets	CSMAR
LEV	Ratio of total debts to total assets	CSMAR
CAP	Ratio of fixed assets to total assets	CSMAR
GROWTH	The operating income growth rate	CSMAR
ROA	Ratio of net profit to total assets	CSMAR
BOARD	Natural logarithm of the number of directors on the board	CSMAR
INDEP	Percentage of independent directors on the board	CSMAR
Mediating variables		
ESG investment	ESG rating namely: AAA, AA, A, BBB, BB, B, CCC, CC, C, denoting these levels from high to low as "9~1".	Hua Zheng ESG

BASELINE REGRESSION AND ANALYSIS

Descriptive Analysis

Table 2 presents the statistical summary. The value of corporate financialization fluctuates between 0 and 0.5935, with a mean of 0.1025. This suggests variations in the level of financialization among different companies, with some experiencing substantial differences. The median (P50) is 0.0622, more significant than the average value, suggesting that the distribution of corporate financialization data may be right-skewed. The mean value for CEO overseas experiences is 0.0731, indicating that CEOs with overseas experiences constitute only 7.31% of the sample, with most CEOs lacking overseas experiences. Regarding to other control variables, the descriptive statistics align closely with previous studies conducted by other scholars.

Table 2

Descriptive statistics

Variable	N	Mean	P25	P50	P75	Min	Max	SD
CF	13,343	0.1025	0.0233	0.0622	0.1413	0	0.5935	0.1146
CEO	13,343	0.0731	0	0	0	0	1	0.2604
SIZE	13,343	22.467	21.573	22.302	23.209	19.818	26.088	1.2581
LEV	13,343	0.4209	0.2679	0.4157	0.5794	0.0525	0.8884	0.1935
CAP	13,343	0.2241	0.1037	0.1899	0.3117	0.0032	0.6855	0.1552
GROWTH	13,343	0.1992	-0.0517	0.0846	0.2339	-0.9533	7.4025	0.9016
ROA	13,343	0.0366	0.0137	0.0345	0.0628	-0.2744	0.2054	0.0569
BOARD	13,343	2.3024	2.1972	2.3026	2.4849	1.6094	2.8904	0.2452
INDEP	13,343	0.3738	0.3333	0.3333	0.4286	0.3333	0.5714	0.0529

Table 3 presents the results of the Pearson correlation test among the variables, with all correlation being less than 0.5. In addition, the variance inflation factor (VIF) for the variables lies between 1.01 and 1.60, with an average VIF of 1.19. This is significantly lower than the empirical threshold of 10, indicating no multicollinearity issue in the research model of this study.

Table 3

Correlation coefficient

	CF	CEO	SIZE	LEV	CAP	GROWTH	ROA	BOARD	INDEP
CF	1.000								
CEO	-0.008	1.000							
SIZE	-0.007	-0.029***	1.000						
LEV	-0.202***	-0.055***	0.500***	1.000					
CAP	-0.222***	-0.047***	0.117***	0.084***	1.000				
GROWTH	-0.045***	-0.014	0.119***	0.103***	-0.006	1.000			
ROA	0.039***	-0.010	0.063***	-0.314***	-0.030***	0.096***	1.000		
BOARD	-0.019***	-0.068***	0.235***	0.154***	0.105***	0.036***	-0.016***	1.000	
INDEP	0.002	0.056***	0.001	-0.004	-0.051***	-0.004	-0.049***	-0.345***	1.000

Noted: *p < 0.1, **p < 0.05, ***p < 0.01.

Empirical Results and Robustness Test

To evaluate hypothesis H1, this study opts a static panel model to analyze the impact of CEO overseas experience on corporate financialization. In line with established research methods, this study chooses to analyze using a two-way fixed effects model after a Hausman test. The baseline regression Eq. (2) is constructed as follows:

$$CF_{it} = \alpha_0 + \alpha_1 CEO_{it} + \alpha_i CV_{it} + \sum INDUSTRY + \sum YEAR + \varepsilon_{it} \quad (2)$$

In Eq. (2), CF_{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 e series of control variables; $\sum INDUSTRY$ denotes industry fixed effects; $\sum YEAR$ denotes year fixed effects, and ε_{it} denotes the disturbance term.

To obtain efficient estimates, this study additionally uses the dynamic panel model of the SYS-GMM (Blundell & Bond, 1998) To address econometric issues like endogeneity and autocorrelation, the SYS-GMM approach is commonly utilized (Baltagi, 2021). As seen in Eq. (3), CF_{it-1} presents the lagged dependent variable of the corporate financialization.

$$CF_{it} = \beta_0 + \beta_1 CF_{it-1} + \beta_2 CEO_{it} + \beta_i CV_{it} + +\varepsilon_{it} \quad (3)$$

Column 1 in Table 4 reports the two-way fixed effects model regression results indicates 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. Column 2 reports the SYS-GMM model regression results, indicates that the estimated coefficient for CEO overseas experiences is -0.2733, significant at the 5% level. Moreover, the model passed both the autocorrelation test, Sargan and Hansen tests. This further corroborates that CEO overseas experience can effectively inhibit the progression of corporate financialization.

To validate the robustness of the baseline regression results, this investigation will conduct a series of robustness tests to determine the sign and significance level of the overseas CEO. First of all, the study

changes the regression model (See Table 4, columns 3-4). Column 3 employs an Ordinary Least Squares (OLS) regression model, while column 4 incorporates provincial fixed effects into the previously established model. Secondly, the study changes the measurement of the dependent and independent variables for regression (See Table 4, columns 5-7). Specifically, in columns 5 and 6, the study replaces the measurements of corporate financialization. In order to reduce the impact of individual differences on company decision-making, the study replaces overseas CEOs with overseas TMT, as shown in column 7. Lastly, considering the impact of COVID-19, this study excludes observations from the years 2020 and 2022 for testing, as shown in column 8. 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 CEO and corporate financialization, suggesting that overseas CEO will inhibit the lever of corporate financialization. The finding validates the hypothesis H1 and further extends the conclusions of existing similar research (Y. 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 results

	(1) FE	(2) SYS-GMM	(3)	(4)	(5)	(6)	(7)	(8)
	CF	CF	CF	CF	CF	FIR	CF	CF
L.CF		0.8088***						
		(20.42)						
CEO	-0.0109**	-0.2733**	-0.0130***	-0.0110**	-0.0086**	-0.0558**		-0.0118**
	(-3.11)	(-2.71)	(-3.59)	(-3.14)	(-3.17)	(-2.05)		(-2.78)
TMT							-0.0047***	
							(-4.14)	
_Cons	-0.0652**	0.0361	-0.1221***	-0.0729***	-0.0622***	-0.3675**	-0.0774***	-0.0554**
	(-2.97)	(1.24)	(-5.71)	(-3.20)	(-3.64)	(-2.16)	(-3.50)	(-2.23)
CV	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	NO	NO	YES	YES	YES	YES	YES
Year FE	YES	NO	NO	YES	YES	YES	YES	YES
Province FE	NO	NO	NO	YES	NO	NO	NO	NO
N	13,343	12,130	13,343	13,343	13,343	13,343	13,343	11,272
R^2	0.1251	NO	0.1053	0.1447	0.1003	0.0098	0.1263	0.1207
AR (1)		0.000						
AR (2)		0.336						
Sargan		0.837						
Hansen		0.870						

Noted: The CF for robust test in column 5 refers to the financial asset rate, which is defined as the sum of trading financial assets, derivative financial assets, net short-term investments, net amount of interest receivable, net dividends receivable, net amount of financial assets purchased under resale agreements, net income from held-to-maturity investments, net long term debt investment, net investment properties divided by total assets. The FIR in Column refers to the financial income rate, which is defined as the sum of investment income, fair value changes, and other comprehensive income divided by operating profit. *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

Endogeneity Test

Potential endogeneity issues may arise from reciprocal causation, the exclusion of relevant variables, and non-random sample selection. To counteract these endogeneity concerns, the study implements a variety of methodologies, including fixed effects model, Two-Stage Least Squares (2SLS), the Heckman two-step correction model, and the Propensity Score Matching (PSM) technique. Employing these methods enhances the credibility of our findings by rigorously addressing the potential endogeneity within our analysis. All endogeneity results are shown in Table5.

Fixed Effect Model

First of all, the study lags the independent variable by one period, the estimated coefficient is -0.0106, significant at the 5% level, indicating that the presence of CEO overseas experiences leads to changes in corporate financialization. Therefore, even after considering the issue of reverse causality, the conclusions of this study remain robust. Additionally, the study analyzes all control variables lagged by one period to mitigate potential interference from control variables. The results show that the estimated coefficient for CEO overseas experiences lagged by one period is -0.0112, significant at the 5% level. This aligns with the conclusions above, further confirming the robustness of the study's results.

2SLS

The possible double directions of causality may exist between CEO overseas experience and corporate financialization, which induces the endogeneity problem. To deal with the potential endogeneity problem, we further perform 2SLS regression using AVER-CEO as instruments because AVER-CEO is closely related to CEO but not necessarily related to CF. The first step is to test whether the instrumental variable is valid.

As shown in column 3, AVER-CEO is significantly negative to CEO (Coef=-0.6960, $p<0.001$), which shows that the instrumental variable is valid, and the F value equals 26.36, indicating that the selected instrumental variable is not a weak instrumental variable. For the second step, considering the instrumental variable's effectiveness, CEO is still significantly negatively related to CF (Coef=-0.1069, $p<0.05$). At the same time, the model passed the LM and Wald F statistics tests, indicating that weak instrumental variables do not interfere with the model. It also passed the Hansen J statistic test, indicating that the model needs to have the problem of over-identification.

Heckman Two-Way

From the viewpoint of CEO overseas and corporate financialization, endogeneity issues arise from sample selection bias and reciprocal causation. We apply the Heckman two-step estimation method to address the potential endogeneity issue. For the first step, CEO overseas experiences across various companies within the same industry and time frame are selected as instrumental variables to construct a Probit model. Then, the Inverse Mills Ratio (IMR) obtained from this first step is integrated into Eq (2), as previously mentioned, forming the second stage of the model.

Columns 4 and 5 in Table 5 present the results of the Heckman two-stage estimation. In the first stage, the negative statistical coefficients on the average of CEO overseas experience. In addition, the significant statistical coefficient of IMR implies the presence of a selection effect. And after we consider selection effect in the second stage, the statistical coefficient of CEO overseas experience remains significantly negative, lending further support to H1.

PSM Model

To rectify the endogeneity issue stemming from the random selection of samples, we employ the PSM model. Initially, we construct a Probit model using a one-to-one matching method to estimate the probability of an overseas CEO. This probability is influenced by control variables such as size, lev, cap, growth, roa, board, indep, and top management team pay (tmtpay). Subsequently, by computing the Average Treatment Effect on the Treated (ATT), we find that the standardized biases for each variable post-matching are less than 4%, indicating that the matching satisfies the balance assumption. Finally, after matching, the treatment effect (ATT) is -0.0188 with a t-test statistic of -3.45, signifying a significant difference between the treatment and control groups at the 1% significance level. Column 6 presents the regression result of the matching samples, where the statistical coefficient of CEO overseas experience reminds significant negative, lending further support to H1.

Collectively, after employing regression with fixed effect model, 2SLS model, Heckman two-stage estimation, and the PSM approach to address possible endogeneity issues, our main findings still hold.

Table 5

Endogeneity test

	(1) FE	(2) FE	(3) 2SLS First stage	(4) 2SLS Second stage	(5) Heckman First stage	(6) Heckman Second stage	(7) PSM
	CF	CF	CEO	CF	CEO	CF	CF
L.CEO	-0.0106**	-0.0112**					
	(-2.80)	(-2.95)					
Aver-CEO			-0.6960***		-6.3473***		
			(-5.13)		(-3.38)		
CEO				-0.1069**		-0.0105***	-0.0198***
				(-1.98)		(-3.21)	(-4.01)
IMR						0.0152**	
						(2.11)	
_Cons	-0.0340	-0.0605**	0.0410	-0.0415*	-2.2085***	-0.0905**	-0.1764**
	(-1.46)	(-2.56)	(0.87)	(-1.71)	(-4.06)	(-3.05)	(-2.77)
CV	YES	NO	YES	YES	YES	YES	YES
L.CV	NO	YES	NO	NO	NO	NO	NO
Industry FE	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES
N	12,130	12,130	13,343	13,343	13,169	13,169	1,874
R^2	0.1323	0.1135	NO	0.1262	0.0498	0.1740	0.1326
F			26.36				
LM				0.000			
Wald F				48.905			
Hansen J				0.000			
ATT t-stat							-3.45

Noted: Aver-CEO refers to the average overseas experience among CEOs in the same industry.

*p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

CULTURE DISTANCE AND CORPORATE FINANCIALIZATION

Regression Results

In order to test H2 in Sect 2, we regress CF on various culture dimensions. We set up the Eq. (4) as follows:

$$CF_{it} = \gamma_0 + \gamma_1 CD_i + \gamma_i CV_{it} + \sum INDUSTRY + \sum YEAR + \varepsilon_{it} \quad (4)$$

Where the independent variable CD_{it} are a set of culture indices, which measure different dimensions of culture. The other variables remain as previously mentioned.

Column 1 in Table 6 reports the two-way fixed effects model regression results indicates that the estimated coefficient for cultural distance is -0.0031, which is significantly negative at the 1% significance level. It suggests the cultural distance between the countries where CEO worked or received education and China, demonstrating the evolution of CF. Furthermore, columns 2 and 7 outline six cultural indicators, all exhibiting significantly negative associations, except for MF. These are basically the same as Du et al. (2022) and Karolyi (2016). Thus, H2 is confirmed.

Table 6

Empirical results of cultural distance

	(1) CF	(2) CF	(3) CF	(4) CF	(5) CF	(6) CF	(7) CF
CD	-0.0031*** (-3.23)						
PD		-0.0019** (-2.43)					
IC			-0.0015*** (-3.29)				
MF				-0.0054 (-1.34)			
UA					-0.0033** (-2.52)		
LO						-0.0017** (-2.66)	
IR							-0.0028** (-2.95)
_Cons	-0.0654** (-2.97)	-0.0655** (-2.98)	-0.0657** (-2.99)	-0.0663** (-3.01)	-0.0655** (-2.98)	-0.0659** (-3.00)	-0.0656** (-2.98)
CV	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES
N	13,343	13,343	13,343	13,343	13,343	13,343	13,343
R^2	0.1252	0.1246	0.1253	0.1243	0.1245	0.1250	0.1250

Noted: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

Relative importance analysis

As our focus is the different effects of different culture characteristics on CF, we are more concerned with the relative importance of the six culture indices. In other words, we wish to isolate the contribution of each explanatory variable towards the R^2 or adjusted R^2 of the whole model. To achieve this, we use the method of Relative Importance Analysis (RIA) that has been widely used recently in management, psychology, and sociology (Fortin et al., 2011; Johnson & Lebreton, 2004; Luo & Azen, 2013; Nathans et al., 2012). The basic idea of RIA is to compare the relative importance of different explanatory variables after model formation, we set up the Eq. (5) as follows:

$$y = \alpha + \sum_{j=1}^{J} b_j x_j + \varepsilon \quad (5)$$

The total variance in the dependent variable y, represented by the total sum of squares (TSS), is divided into two components: the regression summary of squares (RSS) and the residual sum of squares, also known as the error sum of squares (ESS). Where, $\hat{y}$ is the predicted value of the explained variable, the goodness of fit R^2 can be expressed as following Eq. (6):

$$R^2 = \frac{RSS}{TSS} = \frac{Var(\hat{y})}{Var(y)} = 1 - \frac{Var(e)}{Var(y)} \quad (6)$$

R^2 is a crucial statistic for assessing the goodness of fit of a model. Researchers aiming to understand the significance of various explanatory variables will naturally seek to analyse how each variable contributes to R^2 and evaluate their importance. The variance of the dependent variable y, or the total sum of squares (TSS)(Fields, 2003; Shorrocks, 1999), can be broken down into the Eq. (7) as follows:

$$Var(y) = \sum_{j=1}^{J} Cov(b_j x_j, y) + Cov(e, y) \quad (7)$$

This enables us to determine the respective influence of various explanatory variables as outlined in Eq. (8) below:

$$R^2(y) = \frac{\sum_{j=1}^{J} b_j Cov(x_j, y)}{Var(y)} = 1 - \frac{Cov(e, y)}{Var(y)} \quad (8)$$

Table 7 presents the results of RIA. The corresponding RIA results shown in column 2 of Table 7 show that the most importance determinant of CF in this specification is IC, with RIA value 34.65%. Within Geert Hofstede's theory on cultural dimensions, the concepts of individualism and collectivism serve as pivotal elements for grasping the nuances of cultural variances(Hofstede, 1984, 2016). CEOs enriched by international exposure and the nuances of sophisticated foreign cultural frameworks tend to align their strategies with the dual objectives of maximizing shareholder value and advancing the company's interests, effectively navigating the complexities associated with agency costs (Gu, 2022).

Moreover, such leaders prioritize the sustained growth and overall welfare of the enterprise beyond mere immediate financial gains. A deep commitment to social responsibility and a dedication to the interests of a broad spectrum of stakeholders characterize their holistic management approaches. Furthermore, these CEOs' global insights enhance their adaptability and innovativeness in strategic planning and execution, fostering a culture of innovative decision-making within their organizations. Others are shown in Table 7.

Table 7

Relative importance analysis (RIA)

	(1) CF	(2) CF	(3) CF	(4) CF	(5) CF	(6) CF
PD	24.96% (2)					
IC		34.65% (1)				
MF			3.09% (6)			

UA				7.38% (5)		
LO					10.17% (4)	
IR						19.76% (3)
N	13,343	13,343	13,343	13,343	13,343	13,343

Noted: The Stata command ‘‘domin’’ is used for RIA in this paper. We first break down the model R-squared into shares from individual regressors and, the RIA of the j^{th} variable is its share in explaining the dependent variable variance. See Grömping (2007) for details. The relative ranking of each variable is presented in brackets.

MEDIATING EFFECT OF ESG

The paper attempts to explain the channel through which CEO overseas experience exhibits CF from the perspective of ESG investment. First of all, the stepwise regression method is used to test H3. The first step of the stepwise regression model is as shown in Eq. (2), and the second and third steps are as follows:

$$ESG_{it} = \delta_0 + \delta_1 CEO_{it} + \delta CV_{it} + \sum INDUSTRY + \sum YEAR + \varepsilon_{it} \quad (9)$$

$$CF_{it} = \theta_0 + \theta_1 CEO_{it} + \theta_2 ESG_{it} + \gamma CV_{it} + \sum INDUSTRY + \sum YEAR + \varepsilon_{it} \quad (10)$$

In Eq. (9) and Eq. (10), ESG_{it} denotes the level of ESG investment towards company i in year t. The interpretation of other variables remains the same as in Eq. (2).

Table 8 represents the results of determining whether ESG invest mediates the relationship between CEO overseas experience and corporate financialization on the stepwise regression method, modified Sobel test, and Bootstrap test. First of all, the results of the stepwise regression method show that CEO overseas experience positively improves ESG (Coef=0.0593, p<0.1) in column 2. Column 3 indicates that CEO overseas experience and ESG all make significant contributions on the inhibition of CF. This illustrates the key role played by both CEO overseas experience and ESG in inhibiting the development of CF. Hence, the findings indicate that overseas CEOs reduce CF development by enhancing ESG practices. Additionally, the reliability of the findings is corroborated by the results of both the Sobel test and the Bootstrap test. The Sobel test yields a Z value of -1.889, significant at the 10% level. The results from the Bootstrap test (z=-1.73, p<0.1) indicate that both the direct and indirect effects do not encompass 0 within their confidence intervals, supporting the findings. Thus, H3 is confirmed.

Table 8

Empirical results of mediating effect of ESG

	(1) CF	(2) ESG	(3) CF
CEO	-0.0109**	0.0593*	-0.0107**
	(-3.11)	(1.77)	(-3.06)
ESG			-0.0030***
			(-3.28)
_Cons	-0.0652**	-1.5973***	-0.0700***
	(-2.97)	(-7.59)	(-3.18)
CV	YES	YES	YES
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

N	13,343	13,343	13,343
R^2	0.1251	0.1166	0.1257
Sobel test			Z=-1.889*
Bootstrap test			Z=-1.73*

Noted: *p < 0.1, **p < 0.05, ***p < 0.01, t-value in parentheses.

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 upper echelons theory, this paper delves into the impact of CEO overseas experiences on corporate financialization. The study uses balanced panel data from listed companies on the China A-share market from 2012 to 2022 as the research sample.

The study applies a dual-method approach, utilizing a two-way fixed effect model alongside a SYS-GMM model to explore the dynamics between CEOs' overseas experiences and corporate financialization. The robustness of our results is confirmed by addressing endogeneity concerns with methodologies including two-way fixed effects regression with lagged variables, Two-Stage Least Squares (2SLS), Heckman two-step regression, and Propensity Score Matching (PSM). The analysis reveals that cultural disparities between the nations where CEOs gained experience and China serve to restrain corporate financialization, with the divide in Individualism versus Collectivism (IC) values being particularly influential. Additionally, our research indicates that CEOs with international experience predominantly curb corporate financialization by enhancing ESG investments.

These findings profoundly affect corporate management and strategic planning in China and globally. As globalization increases and the flow of international talent grows, understanding and leveraging these overseas experiences become increasingly critical to corporate sustainable development strategies. Future research could further explore the specific impact of cultural differences among countries on corporate financialization across various industries, as well as how to effectively integrate overseas experience to enhance corporate social responsibility and support global sustainability goals. Moreover, as international markets evolve, these CEOs' global perspectives and cross-cultural leadership capabilities will likely bring businesses more innovation and competitive advantage.

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