CEO Foreign Experience and Corporate Financial Investment

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ABSTRACT

Using a hand-collected sample of CEOs' foreign experience data for Chinese listed firms from 2008-2018, we investigate the impact of CEO foreign experience on corporate financial investment behaviors. We find a significantly negative association between CEO foreign experience and risky financial investment and a significantly positive association between CEO foreign experience and safety financial investment, suggesting CEOs with foreign experience can help constrain their firms' financial investment. The result is robust to Heckman two-stage analysis, instrumental variable approach, propensity score matching, change analysis, and other robustness tests. Further analyses reveal that CEOs with foreign experience act as a key role of inhibiting the risky financial investment when firms have suffered poor internal or external corporate governance. The negative relation between CEO foreign experience and risky financial investment is more pronounced when firms have a dominant shareholder, have institutional investors involved, and more analysts covered. The negative effect is more pronounced when CEOs have financial background. The result also suggests that the negative relation between CEO foreign experience and risky financial investment is more pronounced in state-owned firms. Overall, the findings suggest that CEO foreign experience matters for corporate financial decisions in emerging markets.
Key words: CEO; foreign experience; Corporate financial investment; Corporate governance.
***JEL Codes*:** F65; G14; G32

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CEO Foreign Experience and Corporate Financial Investment

1. Introduction

Chief Executive Officers (CEOs) play a central role in corporate investment decisions (Bennedsen et al., 2020). Prior research shows that CEO characteristics significantly affect the efficiency of corporate investment activities (e.g., Barker and Mueller, 2002; Malmendier and Tate, 2005; Kaplan et al., 2012; Hamori and Koyuncu, 2015; Khedmati et al., 2020; Hao et al., 2021; Sun et al., 2023). As the emerging markets such as China attract more and more returnee talents who have studied or worked abroad, hiring CEOs with foreign experience as a key member of the board of directors is a growing trend in those markets which is important to improve corporate governance and investment practices (Giannetti et al., 2015). Although the effects of directors and managers with foreign experience have been recently investigated (e. g., Yuan and Wen, 2018; Cao et al., 2019; Wen et al., 2020; Kong et al., 2021; Liao et al., 2022), there is few studies which focus on the effects of CEOs with foreign experience. A recent study conducted by Conyon et al. (2019) who examines the effects of CEO foreign experience on CEO total compensation has found that CEO foreign experience is associated with higher CEO total compensation. To fill this void, we explore whether and how CEOs benefit from foreign experience and affect corporate financial investment decisions. The question is essential, as the investment is one of the most important corporate decisions in which CEOs are also involved. The existence of a CEO investment cycle, in which firms disinvest early in a CEO's tenure and increase investment subsequently, leading to "cyclical" firm growth in assets as well as in employment over CEO tenure (Pan et al., 2016). Second, as suggested by Duchin et al. (2017), firms nowadays hold a large portion of financial assets. Until 2019, 46% of Chinese-listed industrial firms held a wide range of financial assets, amounting to

$141 billion. The agency problems are more severe when firms invest more in financial assets for short-term profit but incur more risks in the long run, which takes advantage of minority shareholders' interests. Whether CEO foreign experience can curb such agency problems is still an empirical issue.

CEO foreign experience has two opposing effects on corporate investment in financial assets. On the one hand, CEO overconfidence may tilt firms toward investing more in risky financial assets (Duchin et al., 2017). Such overconfidence could arise if returnee managers gain the ability to manage multi-asset portfolios from overseas studies or employment positions. Such human capital building, which leads to higher external salaries, decouples the manager's future compensation and investor returns. If firms have suffered severe agency problems, such overconfidence may play a dominant role in investing more in risky financial assets. On the other hand, CEOs with foreign experience may be more sensitive to risk when it comes to financial investment and therefore, reduce corporate investing in financial assets. CEOs especially returning from the over-developed financial markets who are likely to have more experience with the recent global financial crisis and are well-versed in the ways of risk management, have learned lessons in financial investment. In addition, CEOs with foreign experience have greater reputation concerns about long-term shareholder value increased through real investment (i.e., high-tech activities), but are still motivated to reduce high-risk financial investment. Therefore, it is ex ante unclear how CEO foreign experience might affect corporate financial investment.

China is ideal in the context of the research that this study covers. First, in terms of global orientation, China holds the top position among all countries for both overseas student markets and oversea returnees (China's Ministry of Education, 2019). Since China's Ministry of Education

submitted the *Report on Increasing Government Funded Overseas Students* to the central government in 1978, a trend of "returning" has gradually emerged in China, especially in this critical period of economic transformation and restructuring that has produced a strong demand for high-level talents. By the end of 2018, the total number of overseas students returning to China had reached 3.65 million. Second, the level of mandated disclosure regarding the backgrounds of directors or executives is higher in China than in other countries. The sample of firms we have investigated provides sufficient firm and CEOs' time-series observations, while also maximizing the potential implications of the study. Finally, our research design focuses on a single country in order to avoid the correlated omitted variable problems of multi-national studies, involving legal, regulatory, political, cultural, and economic factors.

To examine whether CEO foreign experience affects corporate financial investment, we hand collect CEOs' personal information from corporate disclosures and additional sources. The information includes foreign education, work experience, host country in which experience was obtained, and current position in listed companies. We use one indicator variable to capture whether a firm has hired a CEO with foreign experience. Using a sample of Chinese listed companies from 2008-2018, we find a significantly negative association between CEO foreign experience and risky financial investment and a significantly positive association between CEO foreign experience and safety financial investment, suggesting CEOs with foreign experience can help constrain their firms' financial investment.

We perform several tests to ensure the robustness of our main findings. First, our results might suffer from the self-selection problem. Specifically, it is possible that firms engaging less in financial asset investment tend to hire CEOs with foreign experience, which may affect our main

results. To mitigate the concern of self-selection bias, we apply the Heckman two-stage procedures and find that our main results are unchanged. Second, to mitigate possible endogeneity issues, we introduce the instrumental variable approach and find that our main results have not suffered from the endogeneity. Third, we apply propensity score matching to select a control group and find that our main findings have been unchanged. Forth, we construct the lead-lag analysis to illustrate the impact of newly-hired CEOs with foreign experience, and the results still hold. Finally, we try to rule out the effects of the financial crisis during our sample period and find the consistent results.

Further analysis reveals that the constraining effects of CEO foreign experience on corporate financial investment is more pronounced when firms suffer from poor internal and external corporate governance, suggesting CEOs with foreign experience acting as an alternative of monitoring mechanism, which is consistent with the findings of Giannetti et al. (2015). Especially, CEO foreign experience in firms with lower analyst coverage and lower institutional investor holdings have greater impacts on reducing financial investment than those in firms with higher analyst coverage and higher institutional investor holdings. Our results also indicate that the constraining effects of CEO foreign experience on corporate financial investment is more pronounced in state-owned enterprises (SOEs) compared with private firms, confirming our findings that CEOs with foreign experience act as an alternative of monitoring mechanism in firms with poor corporate governance such as SOEs. Moreover, we find that CEOs with foreign experience who have financial backgrounds could perform a better monitoring role of withholding risky financial investment than those who have not financial backgrounds. Finally, we find that CEOs' working experience and studying experience both affect the safety financial investment whereas CEOs' working experience and studying experience has not affect the risky financial

investment. Overall, our evidence is consistent with the conjecture that CEO foreign experience indeed matters for corporate financial investment.

Our paper blends two important streams of research in the extant literature; therefore, this study contributes to the literature in at least two ways. First, our study contributes to one stream of literature on linking the characteristics of CEOs and foreign experience, to organizational behavior and outcomes. One claim is that more foreign experience enhances firm performance (Carpenter et al., 2001; Le and Kroll, 2017; Cumming et al., 2017; Estélyi and Nisar, 2016; Nielsen and Nielsen, 2013; Piaskowska and Trojanowski, 2014; Adams et al., 2023), corporate innovation (Yuan and Wen, 2018), stock crash risk (Cao et al., 2019), IPO behavior (Duan et al., 2020), tax avoidance (Wen et al., 2020), and financial reporting transparency (Liao et al., 2022). In addition, Giannetti et al. (2015) show that directors with foreign experience improve their firms' long-term value. Our study provides empirical evidence that CEOs with foreign experience could play a monitoring role of helping to reduce risky financial investment but increase safety financial investment. This supports findings from recent studies and has policy implications for emerging markets on foreign talents returning to their home countries.

The second is on corporate financial investment. Motivated by the short-term compensation scheme, industrial firms and their managers have incentives to invest in financial assets, which can decrease firms' cash flow, lower liquidity and increase financial risks (Duchin et al., 2017). Prior studies show that some firm-level characteristics that affect corporate financial investments include: cash flow volatility, investment opportunities, and firm size (Opler et al., 1999; Bates et al., 2009); taxation (Foley et al., 2007; Faulkender and Petersen, 2012); corporate governance (Dittmar and Mahrt-Smith, 2007; Anokhin et al., 2016; Duchin et al., 2017); types of enterprise (Wang, 2010);

and macro-environment (Andreou et al., 2017; Ferris and Makhija, 1988). Moreover, recent studies find that director- or manager-level characteristics are associated with corporate financial investments. For example, Duchin et al., (2017) examine managerial overconfidence and find that overconfident managers invest more financial assets. Tan et al., (2022) discuss the relationship between CEO demission threats and corporate risk-taking levels and find that the relationship can be described by an inverted "U" in which moderate CEO demission threats increase the level of corporate risk-taking. Han et al., (2022) investigate the influence of CEOs' early life experiences on their strategic decisions and conclude that CEOs with the childhood famine experience tend to make high philanthropic donations. Choi and Jung (2021) verified that firms, under the control of CEOs who exposure to war in early life, have tendency to enhance information transparency. Our study provides a new perspective of the determinants of corporate financial investment that CEO foreign experience could act as a monitoring mechanism to affect the allocation of corporate financial assets.

The remainder of this paper is organized as follows. Section 2 provides an overview of relevant literature and presents the hypotheses; Section 3 describes the sample, methodology, and variables; Section 4 presents the empirical results; and Section 5 summarizes and concludes our findings.

2. Institutional background and hypothesis development

2.1 Institutional background: The tide of overseas returnees in China

The prosperity of a country depends on its talents--the primary productive force for competition and development in modern society. In this important period of economic transformation, in order for China to industrialize economic restructuring and industrial upgrading, it must expedite the implementation of scientific processes in the context of development and establish a strong talent

pool. To this end, the report of the 19th CPC National Congress specified, “talents are a strategic resource for China to achieve national rejuvenation and be successful in the initiative of international competition. Therefore, China must gather talents from all over the world and expedite the strategy of strengthening the country through talents.” Chinese government also emphasized that it is necessary to establish a strong sense of talent; implement effective unity, leadership, and service; sincerely care for and provide opportunities to talent; and take greater initiative in introducing foreign talent, especially high-level talent, while vigorously training domestic, innovative talent. The above discussion profoundly clarifies the great value of talents in promoting national strategic transformation and improving national competitiveness. It also reflects the deep understanding of the Chinese government regarding the importance of talents, which requires practical and theoretical circles to constantly explore and improve relevant theories in the interest of promoting economic development.

Since the Ministry of Education submitted the *Report on Increasing Government Funded Overseas Students* to the central government in 1978, the Chinese government has continuously issued a variety of policies specific to different types of talent to encourage the return of overseas students and talent in the interest of alleviating the shortage of talent in social and economic contexts. Meanwhile, with the increase in household wealth and the deepening of scientific and cultural exchanges between China and the west, there is an increasing number of Chinese people studying abroad at their own expense. In the early days, fewer among them returned China, but with the great improvement in social and economic development, the working environment, and remuneration in China, a trend of “returning” has gradually emerged in this new century (Giannetti et al., 2015), especially in this critical period of economic transformation and restructuring that has produced a

strong demand for high-level talents. In response to global competition, the central and local governments have successively issued a series of talent introduction programs and special talent support policies. According to the 2020 *Chinese Returnees Employment and Entrepreneurship Survey Report* jointly released by the Center for China and Globalization (CCG) and Zhaopin in Beijing, by the end of 2019, the total number of overseas students returning to China had reached 3.652 million. In 2019 alone, 519,000 overseas students returned to China after graduation, and the newly-increased number of returnees has exceeded the expected increase in college graduates.

2.2 Hypothesis development

The upper echelons theory suggests that CEO characteristics obtained from their early experiences lead to great differences in their behavior choices, thus affecting corporate investment decisions (Hambrick and Mason, 1984). Some scholars have followed this idea and carried out research from the perspective of the difficult experiences of CEOs (Malmendier et al., 2011; Bernile et al., 2017; Feng and Anders, 2018; Choi et al., 2023), financial experience (Koyuncu et al., 2010；Gu , 2023; Yang et al., 2021), as well as military experience (Benmelech and Frydman, 2015; Hao et al., 2023). As financial investment is one of the most important corporate decisions, we expect that CEOs' foreign experience has a significant influence on a firm's financial investment behaviors, which differs from CEOs who do not have international experience.

CEO overconfidence has been identified as one of the main factors responsible for stimulating a firm's investment in risky financial assets (Duchin et al., 2017; El-Ansary and Ahmed., 2023). Some literature suggests that CEO overconfidence can account for corporate investment distortions (Malmendier and Tate, 2005; Bandiera et al., 2019; Chen et al., 2020). Overconfident CEOs overestimate the returns on their investment projects and overlook the implicit financial investment

risks. This phenomenon could be exacerbated by returnee CEOs who gain the ability to manage multi-asset portfolios from overseas experience and become overconfident. Moreover, Chinese firms often suffer poor corporate governance and loose internal control systems (Jiang and Kim, 2020), which can deprive returnees of necessary restraints. The cost of a wrong decision made by an overconfident CEOs is too small to justify punishment. In summary, compared with their local peers in China, CEOs with foreign experience can influence their firms to direct more risky financial assets toward investment due to CEO overconfidence and poor corporate governance.

On the other hand, a competing argument views the decrease in risky financial investment and the increase in safety financial investment as being associated with a CEOs' risk awareness, which is cultivated in western countries. Prior studies show that top managers who experienced the great depression or natural disasters in their childhood are more strongly motivated by risk aversion, resulting in fewer debts (Malmendier et al., 2011;Xue et al., 2022), less research and development investment (Schoar and Zuo, 2017; Feng and Anders, 2018), and more charitable donations from their companies (Xu and Li, 2016). In China, CEOs returning from developed countries has often been exposed to over-developed financial markets and shaped by the financial crisis. For instance, OECD countries lost billions of dollars in the 2008 financial downturn, resulting in the millions of lost jobs. Assuming they have experienced such disasters first-hand, returnees from OECD countries would likely be more risk-averse in financial investment. Thus, CEOs with foreign experience are more likely to engage in reducing risky financial assets investment or increasing safety financial assets investment.

Furthermore, CEOs with foreign experience can improve corporate governance and alleviate agency conflicts due to their personal values. China as a developing country has incomplete laws,

regulations, and governance mechanisms, but the developed overseas capital markets have effective investor protection protocols and sustainable development schemes. The improved corporate governance mechanisms and stronger legal cultures of developed countries encourage overseas returnees to pay more attention to the legitimate rights and interests of stakeholders, help enterprises follow stricter governance standards, and reduce moral hazards such as earnings management to improve corporate governance (Giannetti et al., 2015; Zhong et al., 2023). Recent studies show that CEOs with overseas experience have significantly restrained earnings management (Du et al., 2018) and senior management teams with returnee members tend to perform better in regions related to CSR and enhance their reporting transparency (Liao et al., 2022).

In summary, whether CEOs with foreign experience increase or decrease their firms' risky financial assets is an empirical question that merits investigation. Accordingly, we present our competing hypotheses as follows:

H1a: *Ceteris paribus, CEO foreign experience has an accelerating effect on corporate financial investment decisions, which means that CEO foreign experience is positively associated with risky financial investment and negatively associated with safety financial investment.*

H1b: *Ceteris paribus, CEO foreign experience has a monitoring effect on corporate financial investment decisions, which means that CEO foreign experience is negatively associated with risky financial investment and positively associated with safety financial investment.*

3. Sample, variables, research design

3.1 Sample

Following previous study (Giannetti et al., 2015) and comprehensive consideration of the impact of COVID-19, our sample initially was comprised of listed firms on the Shanghai Stock

Exchange (SHSE) and Shenzhen Stock Exchange (SZSE) during the period 2008–2018. We exclude financial firms (e.g., banks, insurance companies, and investment trusts) as they have different structures than other companies. We then exclude observations with missing and abnormal variables (e.g., *Lev*>1). Applying the above criteria yielded a final sample of 22,642 observations. Financial data and managerial data used in this study are obtained from the China Stock Market & Accounting Research (CSMAR) system. We summarize our sample selection procedure in Table 1 Panel A. Panels B of Table 1 report the distribution of our sample across years. Although the yearly distribution in Panel B suggests that CEOs with foreign experience are not clustered in any year(s) of the sample period, it does show an increasing pattern in the last column. In the year 2008, just 4.61% of our sample firms had at least one director with foreign experience. This percentage steadily increased to 11.45% in 2018, which consistent with previous studies (e.g., Wen et al. 2020).

Table 1 Sample selection and distribution

Panel A: Sample selection procedure

	Number of observations
Firms listed on the Shanghai and Shenzhen Stock Exchanges in China during 2008–2018	24,190
Less: Observations in the financial sector	555
Less: Observations with missing variables	993
Final sample	22,642

Panel B：Sample distribution by year

Year	N	*FOR_CEO* =0	*FOR_CEO* =1	Percentage
(1)	(2)	(3)	(4)	(5) = (4) / (2)
2008	1,517	1,447	70	4.61%
2009	1,587	1,508	79	4.97%
2010	1,799	1,695	104	5.78%
2011	1,944	1,824	120	6.17%
2012	2,038	1,900	138	6.77%
2013	2,027	1,872	155	7.65%
2014	2,031	1,863	168	8.27%
2015	2,124	1,923	201	9.46%
2016	2,293	2,057	236	10.29%
2017	2,566	2,269	297	11.57%

2018	2,716	2,405	311	11.45%
Total	22,642	20,763	1,879	8.29%

3.2 Corporate financial investment

Our dependent variable is corporate financial investment. Following Duchin et. al (2017) and considering Chinese accounting standards, we construct two variables to measure corporate financial investment. Risky financial investment (*RFI*) is measured as the proportion of risky financial assets to total assets. Risky financial assets include assets held for trading, loans, and payments-on-behalf; available-for-sale financial assets; derivative financial assets; held-to-maturity investments; and investment real estate. Safety financial investment (*SFI*) is measured as the proportion of safety financial assets to total assets. Safety financial assets include cash and the cash equivalents. By construct, higher values of *RFI* and lower values of *SFI* represent more aggressive financial investment whereas lower values of *RFI* and higher values of *SFI* represent more conservative financial investment.

3.3 Regression model

To test our main research question, we use the following model on the determinants of financial investment:

$$RFI_{i,t} = \alpha_0 + \alpha_1 FOR\_CEO_{i,t} + \alpha_2 MB_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFO_{i,t} + \alpha_5 Net\_WC_{i,t} + \alpha_6 INV_{i,t} + \alpha_7 Lev_{i,t} + \alpha_8 Div_{i,t} + \alpha_9 RD_{i,t} + \alpha_{10} ROA_{i,t} + \alpha_{11} State_{i,t} + Year\ FE + Industry\ FE + \varepsilon \quad (1)$$

$$SFI_{i,t} = \beta_0 + \beta_1 FOR\_CEO_{i,t} + \beta_2 MB_{i,t} + \beta_3 Size_{i,t} + \beta_4 CFO_{i,t} + \beta_5 Net\_WC_{i,t} + \beta_6 INV_{i,t} + \beta_7 Lev_{i,t} + \beta_8 Div_{i,t} + \beta_9 RD_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} State_{i,t} + Year\ FE + Industry\ FE + \varepsilon \quad (2)$$

In Model (1) and Model (2), *FOR_CEO* is our main interest variable, which measures CEOs' foreign experience. The interest variable, *FOR_CEO*, is a dummy variable that equals one if firm *i*

has hired a CEO having foreign experience in year *t* whether he or she has worked or studied outside of mainland China and zero otherwise. Following prior literature (e.g., Duchin et al., 2017), we also add a group of control variables that have been shown to affect financial investment. The control variables include *MB* (total assets divided by market value of equity), *Size* (the natural logarithm of the book value of total assets), , *CFO* (cash flows from operation activities divided by total assets), *Net_WC* (net working capital), *INV* (Cash paid for fixed assets, intangible assets and other long-term assets divided by total assets at the end of the period), *Lev* (the book value of total debt divided by the book value of total assets), *DIV* (whether the firm paid dividends in the current year), RD (research expenditure divided by total assets), *ROA* (net income divided by total assets), *State* (whether the firm is a state-owned enterprise). Moreover, we add industry and year dummies to control for the industrial fixed effect and dynamic changes in the macroeconomic environment common to all firms over the sample period, respectively. All continuous variables are winsorized at 1% at both tails to mitigate the undue influence of extreme values.

Table 2

Descriptive statistics and correlation analysis

Panel A: Descriptive statistics

Variable	N	Mean	SD	Q1	Median	Q3	Min	Max
RFI	22,642	0.071	0.107	0.006	0.028	0.086	0.000	0.573
SFI	22,642	0.178	0.131	0.087	0.142	0.232	0.010	0.650
FOR_CEO	22,642	0.083	0.276	0.000	0.000	0.000	0.000	1.000
MB	22,642	0.623	0.246	0.436	0.632	0.815	0.093	1.119
Size	22,642	22.120	1.327	21.195	21.970	22.890	19.231	26.071
CFO	22,642	0.043	0.077	0.002	0.043	0.088	-0.203	0.253
Net_WC	22,642	0.004	0.222	-0.133	0.008	0.150	-0.645	0.531
INV	22,642	0.051	0.050	0.014	0.036	0.072	0.000	0.242
Lev	22,642	0.465	0.215	0.298	0.461	0.624	0.059	0.995
RD	22,642	0.012	0.016	0.000	0.004	0.020	0.000	0.078
Div	22,642	0.817	0.387	1.000	1.000	1.000	0.000	1.000
ROA	22,642	0.035	0.063	0.012	0.034	0.064	-0.265	0.199
State	22,642	0.483	0.500	0.000	0.000	1.000	0.000	1.000

Panel B: Univariate analysis

RFI	Mean	Median
FOR_CEO =1 (N=1,879)	0.056	0.016
FOR_CEO =0 (N=20,763)	0.072	0.029
Diff	-0.016***	-0.013***

SFI	Mean	Median
FOR_CEO =1 (N=1,879)	0.019	0.160
FOR_CEO =0 (N=20,763)	0.017	0.141
Diff	0.002***	0.019***

*, **, and ***indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively.

4. Empirical results

4.1 Descriptive statistics and correlation analysis

Table 2 presents the descriptive statistics for the variables used in our regressions. The mean and standard deviation of *RFI* are 7.1% and 10.7%, respectively, which demonstrates that there is a big difference in risky financial assets among sample firms. Meanwhile, the mean of safety financial assets is larger than that of risky financial assets, which means that firms have a relative high level of safe financial assets. On average, the mean of *FOR_CEO* is 8.3%, which means that only a small perception of CEOs have foreign experience. The deviation of *FOR_CEO* is 0.276, which shows that there is a large variance of whether CEO have studied or worked abroad in different companies.

Panel B of Table 2 reports the results of univariate tests of the dependent variables used in our study. The mean and median of *RFI* are 0.056 (0.016) for the firms having CEOs with foreign experience and 0.072 (0.029) for firms without such foreign talents. The difference in both means is statistically significant at the 1% level. This means that firms having CEOs with foreign experience have lower risky financial investment than firms without such talents do. The mean and median of *SFI* are 0.019 (0.160) for firms having CEOs with foreign experience and 0.017 (0.141) for those without talents. The differences are also significant at the 1% level which indicates that

CEOs with foreign experience prefer to increase the safety financial investment.

4.2 Main results

To examine how CEO foreign experience affects corporate financial investment, we employ our OLS regression models both (1) and (2). Specifically, we regress our corporate financial investment proxies (both *RFI* and *SFI*) on the measures of CEOs' foreign experience. The main regression results are reported in Table 3. In the first two columns, we run the regressions by only including the dependent variables (*RFI* in column (1) and *SFI* in column (2)). We find that the coefficients of *FOR_CEO* in column (1) are negative and statistically significant at the level of 5% while the coefficients of *FOR_CEO* in column (2) are positive and statistically significant at the level of 1%. In the last two columns, we run the regressions by adding control variables (*RFI* in column (3) and *SFI* in column (4)). We find the very similar results. The results suggest that CEOs with foreign experience have more likely to make more conservative financial investment decisions which is to decrease the risky financial investment and increase the safety financial investment. The economic magnitude is also significant. For example, the coefficient on *FOR_CEO* is -0.008 when the dependent variable is *RFI*, suggesting that firms hiring CEO with foreign experience invest 0.8% less risky financial assets than firms not hiring CEO with foreign experience do. At the same time, the coefficient on *FOR_CEO* is 0.016 when the dependent variable is *SFI*, suggesting that firms hiring a CEO with foreign experience invest 1.6% more safety financial assets (cash and cash equivalents) than firms not hiring a CEO with foreign experience do.

Table 3

Main results

Variables	(1) *RFI*	(2) *SFI*	(3) *RFI*	(4) *SFI*
FOR_CEO	-0.012**	0.019***	-0.008**	0.016***
	(-2.56)	(3.19)	(-2.07)	(3.02)

MB			-0.059***	0.025***
			(-7.40)	(2.90)
Size			0.014***	-0.005***
			(5.78)	(-2.94)
CFO			-0.188***	0.022
			(-10.29)	(1.46)
Net_WC			-0.168***	-0.218***
			(-13.94)	(-20.27)
INV			-0.394***	-0.409***
			(-15.28)	(-15.43)
Lev			-0.191***	-0.294***
			(-12.70)	(-22.67)
RD			-0.535***	0.606***
			(-6.78)	(6.07)
Div			-0.004*	0.028***
			(-1.65)	(10.58)
ROA			0.003	0.365***
			(0.17)	(15.38)
State			0.007**	-0.006**
			(2.15)	(-1.97)
Constant	0.059***	0.140***	-0.005	0.390***
	(7.03)	(12.07)	(-0.17)	(10.30)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Obs#	22642	22642	22642	22642
Adj-R^2	0.087	0.086	0.206	0.296

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

The coefficients on control variables are largely consistent with those reported in prior literature. For example, the coefficient on *SIZE* is positive and significant when the dependent variable is *SFI*, which is consistent with Duchin et al. (2017). The coefficient on *Lev* (leverage) is negative and significant in all regressions. This suggests that firms in higher leverage shrink their financial investment. In summary, the results reported in Table 3 suggest that CEO foreign experience has conservative effect on corporate financial investment, and the effect is both statistically and economically significant.

4.3 Address self-selection bias

Although we document that CEO foreign experience has conservative effect on corporate financial investment, our results may suffer from an endogeneity issue. A firm's decision to appoint a CEO with foreign experience may be non-random and this may cause a self-selection bias. Accordingly, in this subsection, we adopt the Heckman two-step sample selection model to mitigate this endogeneity concern.

In the first stage, we estimate a Probit model with a binary dummy (*FOR_CEO*) as the dependent variable. Following Wen et al. (2020), we choose the following variables as the determinants of appointing CEOs with foreign experiences: *FOR_IND* (Average number of senior returnees in other companies in the same industry in the same year), *MB* (total assets divided by market value of equity), *Size* (the natural logarithm of the book value of total assets), , *CFO* (cash flows from operation activities divided by total assets), *Net_WC* (net working capital), *INV* (Cash paid for fixed assets, intangible assets and other long-term assets divided by total assets at the end of the period), *Lev* (the book value of total debt divided by the book value of total assets), *DIV* (whether the firm paid dividends in the current year), *RD* (research expenditure divided by total assets), *ROA* (net income divided by total assets), *State* (whether the firm is a state-owned enterprise). The model is summarized below:

$$FOR\_CEO_{i,t} = \beta_0 + \beta_1 FOR\_IND_{i,t} + \beta_2 MB_{i,t} + \beta_3 Size_{i,t} + \beta_4 CFO_{i,t} + \beta_5 Net\_WC_{i,t} + \beta_6 INV_{i,t} + \beta_7 Lev_{i,t} + \beta_8 Div_{i,t} + \beta_9 RD_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} State_{i,t} + \sum Year + \sum Industry + \varepsilon_t \quad (3)$$

The result of estimating Model (3) is reported in Panel A of Table 4. The first-stage regression generates the inverse Mills ratio (IMR), and we include it in the second stage regression to control for self-selection bias. Other control variables in the second-stage model are the same as Model (1)

and Model (2). We report the results of the second-stage regression in Panel B of Table 4. The results show that at 1% level, the coefficient of *FOR_CEO* is still significantly negatively correlated with *FRI*, and significantly positively correlated with the coefficient of *SFI*.

Table 4
Heckman two-stage sample selection analysis

Panel A	*FOR_CEO*	Panel B	*Fin*	
	(1)		(1) *RFI*	(2) *SFI*
FOR_IND	6.544***	*FOR_CEO*	-0.009***	0.017***
	(7.89)		(-3.67)	(6.15)
MB	-0.319***	*MB*	-0.058***	0.016***
	(-4.29)		(-13.61)	(3.20)
Size	0.153***	*Size*	0.010***	-0.001
	(10.40)		(8.36)	(-1.01)
CFO	-0.166	*CFO*	-0.188***	0.018*
	(-0.86)		(-19.54)	(1.65)
Net_WC	-0.123	*Net_WC*	-0.167***	-0.221***
	(-1.42)		(-39.03)	(-44.72)
INV	0.790***	*INV*	-0.397***	-0.386***
	(2.93)		(-26.99)	(-22.71)
Lev	-0.339***	*Lev*	-0.189***	-0.304***
	(-3.54)		(-37.20)	(-51.72)
RD	5.076***	*RD*	-0.556***	0.761***
	(5.86)		(-9.53)	(11.29)
Div	0.055	*Div*	-0.005***	0.031***
	(1.44)		(-2.66)	(14.62)
ROA	-0.889***	*ROA*	0.008	0.340***
	(-3.61)		(0.55)	(21.63)
State	-0.486***	*State*	0.009***	-0.021***
	(-16.27)		(2.94)	(-5.64)
Constant	-4.683***	*IMR*	-0.004	0.034***
	(-15.85)		(-0.62)	(4.25)
		Constant	0.014	0.233***
			(0.40)	(5.74)
Year	Yes	*Year*	Yes	Yes
Industry	Yes	*Industry*	Yes	Yes
Obs#	22,630	*Obs#*	22,630	22,630
Pseudo-R²	0.069	*Adj-R²*	0.206	0.296

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

4.4 Instrumental variable (IV) approach

While we introduce Heckman model to mitigate the self-selection bias, it is still possible that some unobservable firm characteristics drive our result. To further alleviate this concern, we follow Wen et al. (2020) and choose two variables as the IV of *FOR_CEO*. The first is *British*. We define *British* as equal to 1 if the British established colonies or concessions in the province where the company was during the late Qing Dynasty[1]. The second is the average value of overseas experience managers of all other companies in the year in which the company is located (*FOR_IND*). The reasons for choosing these two variables as the instrumental variables of CEOs' overseas experience are as follows. First, because the values in the concession regions are easily influenced by the early Western system or Christian values, people living in the concession area will have more opportunities to access Western culture, making them more likely to go abroad in the future. When these people return home, they are more likely to return to the local area and be employed by local enterprises. At the same time, due to the early influence of Western culture, these areas are more likely to become the choice of life and work for returnees by virtue of their Western value atmosphere, so that enterprises in these areas are more likely to hire returnees. Second, the characteristics of companies in the same region, such as labor supply and corporate governance, are similar. Therefore, the overseas background of managers in specific companies is related to those of managers with regional overseas backgrounds. However, the regional overseas executives do not have a direct impact on the financial investment activities of specific companies, so the average value of regional overseas managers can be used as an instrumental variable.

[1] According to Yang and Ye (1993), in the late Qing Dynasty, the following areas were colonized or concession established by Britain, including Xiamen, Hankou, Jiujiang, Zhenjiang, Guangzhou, Weihaiwei, Tianjin and Shanghai. The corresponding British variable of the provinces or municipalities where these areas were located was 1, otherwise it was 0.

We report the results of this analysis in Table 5. Panel A reports the first stage result. The unreported first stage regression result shows that the adjusted partial R^2 of the model is 0.07 which shows that these two instrumental variables are not weak. Panel B of Table 5 presents the results of the second stage regression. When the dependent variable is *RFI*, the coefficient of *FOR_CEO* is still negative and significant at 1% level. When the dependent variable is *SFI*, the coefficient of *FOR_CEO* is positive and significant at 1% level. The results show that after controlling for potential endogeneity issues, returnee CEOs have still more likely to make conservative decisions on financial investment which is to decrease the risky financial investment and increase the safety financial investment.

Table 5
Instrumental variable analysis (2SLS)

Panel A	*FOR_CEO*	Panel B	*Fin*	
	(1)		(1) *RFI*	(2) *SFI*
FOR_IND	0.963***	*FOR_CEO*	-0.074***	0.081***
	(13.87)		(-6.02)	(5.76)
British	-0.003	*MB*	-0.055***	0.029***
	(-0.20)		(-13.82)	(6.35)
MB	-0.040**	*Size*	0.009***	-0.007***
	(-2.10)		(10.52)	(-7.82)
Size	0.019***	*CFO*	-0.186***	0.024**
	(4.30)		(-18.94)	(2.18)
CFO	0.002	*Net_WC*	-0.166***	-0.217***
	(0.05)		(-37.99)	(-43.62)
Net_WC	-0.020	*INV*	-0.404***	-0.417***
	(-0.97)		(-28.24)	(-25.58)
INV	0.118*	*Lev*	-0.187***	-0.291***
	(1.94)		(-38.47)	(-52.69)
Lev	-0.030	*RD*	-0.620***	0.540***
	(-1.26)		(-11.97)	(9.14)
RD	0.789**	*Div*	-0.005***	0.029***
	(2.41)		(-2.71)	(13.81)
Div	0.001	*ROA*	0.015	0.374***
	(0.23)		(1.14)	(25.15)
ROA	-0.126**	*State*	0.013***	-0.003

	(-2.44)		(7.84)	(-1.32)
State	-0.062***	*Constant*	0.024	0.413***
	(-7.37)		(1.56)	(23.37)
Constant	-0.329***			
	(-3.98)			
Year	Yes	*Year*	Yes	Yes
Industry	Yes	*Industry*	Yes	Yes
Obs#	22,642	*Obs#*	22,642	22,642
Adj-R^2	0.070	*Adj-R^2*	0.162	0.278

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

4.5 Propensity score matching (PSM) method

To mitigate the potential endogeneity arising from reverse causality, we compare firms hiring CEOs with foreign experience (i.e., treatment firms) to a sample of control firms hiring CEOs without foreign experience (i.e., control firms) which are matched according to the propensity of a firm to appoint CEOs with foreign experience. After the PSM procedure, there were 3,502 observations in treatment group and 4,137 observations in control group[1]. The similar results are presented in Table 6. The *FOR_CEO* still has a negative effect on *RFI* at the 10% level while positive on *SFI* at the 5% level.

Table 6

Propensity score matching (PSM) method

Panel A: The results of covariate balance checks

	Means		*P* value
	FOR_CEO =1	*FOR_CEO* =0	
MB	0.606	0.608	0.829
Size	22.233	22.215	0.681
CFO	0.044	0.041	0.139
Net_WC	0.029	0.026	0.563
INV	0.055	0.056	0.563
Lev	0.431	0.431	0.941
RD	0.016	0.017	0.931
Div	0.871	0.879	0.509
ROA	0.038	0.037	0.754

[1] The matched variables are all control variables (*MB, Size, CFO, Net_WC, INV, Lev, RD, Div, ROA, State*), and the matching method is 1:1.

State	0.293	0.273	0.169

Panel B: The regression results using PSM procedure

Variables	*Fin*	
	(1) *RFI*	(2) *SFI*
FOR_CEO	-0.008*	0.014**
	(-1.71)	(2.45)
MB	-0.075***	0.029*
	(-5.62)	(1.74)
Size	0.011***	-0.010**
	(3.94)	(-2.46)
CFO	-0.127***	-0.055
	(-3.94)	(-1.50)
Net_WC	-0.154***	-0.257***
	(-7.30)	(-11.16)
INV	-0.311***	-0.535***
	(-7.50)	(-9.98)
Lev	-0.144***	-0.321***
	(-6.35)	(-12.00)
RD	-0.523***	0.937***
	(-4.48)	(5.02)
Div	-0.001	0.031***
	(-0.14)	(4.41)
ROA	-0.028	0.424***
	(-0.64)	(8.36)
State	0.001	0.005
	(0.12)	(0.73)
Constant	-0.046	0.508***
	(-0.87)	(6.33)
Year	Yes	Yes
Industry	Yes	Yes
Obs#	3,502	3,502
Adj-R^2	0.178	0.315

t-Statistics in the brackets are based on standard errors adjusted for clustering at the level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

4.6 Lead-lag analysis

To ensure the reliability and robustness of our results, we perform a lead-lag analysis to test whether appointing CEOs with foreign experience curtails corporate financial investment. In Model (4), the dependent variable is *RFI* in the year *t* while the independent variables are the same in Model

(1) but in the year *t*-1. In Model (5), the dependent variable is *SFI* in the year *t* while the independent variables are the same in Model (2) but in the year *t*-1.

$$RFI_{i,t} = \alpha_0 + \alpha_1 L.FOR\_CEO_{i,t} + \alpha_2 L.MB_{i,t} + \alpha_3 L.Size_{i,t} + \alpha_4 L.CFO_{i,t} + \alpha_5 L.Net\_WC_{i,t} + \alpha_6 L.INV_{i,t} + \alpha_7 L.Lev_{i,t} + \alpha_8 L.Div_{i,t} + \alpha_9 L.RD_{i,t} + \alpha_{10} L.ROA_{i,t} + \alpha_{11} L.State_{i,t} + Year\ FE + Industry + \varepsilon \quad (4)$$

$$SFI_{i,t} = \beta_0 + \beta_1 L.FOR\_CEO_{i,t} + \beta_2 L.MB_{i,t} + \beta_3 L.Size_{i,t} + \beta_4 L.CFO_{i,t} + \beta_5 L.Net\_WC_{i,t} + \beta_6 L.INV_{i,t} + \beta_7 L.Lev_{i,t} + \beta_8 L.Div_{i,t} + \beta_9 L.RD_{i,t} + \beta_{10} L.ROA_{i,t} + \beta_{11} L.State_{i,t} + Year\ FE + Industry\ FE + \varepsilon \quad (5)$$

The results of estimate model (4) and (5) are reported in Table 7. In the first column, the coefficient on *L.FOR_CEO* is -0.007 (t=-5.05), and significant at the 10% level. The results in the second column show that the coefficient on *L.FOR_CEO* is 0.018 (t=3.04), and significant at the 10% level. Again, the results indicate that returnee CEOs have more likely to make conservative decisions on financial investment which is to decrease the risky financial investment and increase the safety financial investment.

Table 7
Lead-lag analysis

Variables	*Fin*	
	(1) *RFI*	(2) *SFI*
L.FOR_CEO	-0.007***	0.018***
	(-5.05)	(3.04)
L.MB	-0.062***	0.039***
	(-9.27)	(4.17)
L.Size	0.010***	-0.007***
	(12.77)	(-3.16)
L.CFO	-0.200***	0.030*
	(-13.30)	(1.79)
L.Net_WC	-0.170***	-0.223***
	(-29.08)	(-19.09)
L.INV	-0.390***	-0.410***
	(-27.28)	(-14.63)
L.Lev	-0.191***	-0.306***
	(-30.07)	(-21.89)
L.RD	-0.541***	0.658***

	(-10.10)	(6.13)
L.Div	-0.005	0.029***
	(-1.64)	(9.64)
L.ROA	0.017	0.393***
	(0.89)	(13.86)
L.State	0.010***	-0.009**
	(6.61)	(-2.38)
Constant	-0.022	0.434***
	(-1.30)	(10.43)
Year	Yes	Yes
Industry	Yes	Yes
Obs#	19,316	19,316
Adj-R²	0.210	0.307

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

4.7 Ruling out financial crisis effect

One might concern whether corporate financial investment has been affected by the financial crisis. Because our study has used 10-year data spanning from 2008 to 2018 which covers the 2008 financial crisis, it is obvious that the 2008 financial crisis can bring huge changes to the economic environment of the whole society, more likely influencing the decision-making tendency of CEOs. In order to survive the economic crisis smoothly, the CEOs of enterprises might adjust the differentiated investment framework and other activities.

In order to rule out financial crisis effect, we excluded two-year data between 2008 and 2009 data from the sample. The results are presented in Table 8. In the first column, the coefficient of *FOR_CEO* is still negative and significant whereas the coefficient of *FOR_CEO* is positive and significant at the 1% level in the second column. These results suggest that our findings are unchanged after ruling out the financial crisis.

Table 8

Rule out financial crisis effect

Variables	*Fin*

	(1) *RFI*	(2) *SFI*
FOR_CEO	-0.007*	0.016***
	(-1.80)	(4.13)
MB	-0.061***	0.024
	(-7.31)	(0.91)
Size	0.010***	-0.007***
	(5.72)	(-4.77)
CFO	-0.173***	0.011
	(-8.97)	(0.67)
Net_WC	-0.164***	-0.229***
	(-13.29)	(-21.08)
INV	-0.393***	-0.424***
	(-14.55)	(-25.31)
Lev	-0.185***	-0.298***
	(-12.45)	(-8.58)
RD	-0.511***	0.580***
	(-6.15)	(10.53)
Div	-0.002	0.028***
	(-0.65)	(5.78)
ROA	-0.004	0.358***
	(-0.17)	(13.85)
State	0.008**	-0.007
	(2.18)	(-1.09)
Constant	-0.030	0.454***
	(-0.87)	(20.04)
Year	Yes	Yes
Industry	Yes	Yes
Obs#	19,538	19,538
Adj-R^2	0.206	0.295

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

5. Further analysis

5.1 The effect of corporate governance

Prior studies suggest that due to concerns about their reputation, returnee directors have to pay more attention to shareholder value (ie. Giannetti et al., 2015; Wen et al. 2020). Moreover, Giannetti et al. (2015) find that by improving corporate governance, returnee directors can increase firm value. We argue that the corporate governance plays a crucial role in the research of returnee CEOs on

risky and safe financial investment. It is common to see that corporate governance can be divided into internal and external governance. According to the above logic, when the internal governance level of the company is more mature, managers with overseas experience can assume a greater governance role, and the extent to which inhibition limits the kind of short-sighted behavior that would promote financial investment becomes stronger. Internal governance is a system for managing and controlling the entire operation of the company while external governance refers to the institutional arrangement of corporate governance made to adapt to the external market. For a more detailed explanation, we demonstrate this hypothesis from two aspects.

In terms of internal governance, we utilize the proportion of the largest shareholders to measure the quality of the company's internal governance. The empirical results are shown in Table 9. When the dependent variable is *RFI*, the coefficient of *FOR_CEO* is negative and significant at the 1% level with the low proportion of the largest shareholders. In the second column, the coefficient of *FOR_CEO* is still negative but not significant. When the dependent variable is *SFI*, the coefficient of *FOR_CEO* are all positive and significant at the 1% level regardless of whether the largest shareholder holds a high or low stake.

Table 9

The effect of internal corporate governance

Variables	*RFI*		*SFI*	
	(1) *Low Top1*	(2) *High Top1*	(3) *Low Top1*	(4) *High Top1*
FOR_CEO	-0.015***	-0.001	0.017***	0.013***
	(-4.54)	(-0.16)	(4.87)	(3.31)
MB	-0.057***	-0.054***	0.013**	0.030***
	(-9.94)	(-10.78)	(2.19)	(4.71)
Size	0.011***	0.010***	-0.004***	-0.007***
	(9.34)	(10.81)	(-3.45)	(-5.90)
CFO	-0.177***	-0.194***	0.044***	-0.019
	(-12.55)	(-15.16)	(2.98)	(-1.20)
Net_WC	-0.175***	-0.157***	-0.185***	-0.264***
	(-28.36)	(-27.42)	(-28.10)	(-36.28)

INV	-0.417***	-0.359***	-0.337***	-0.497***
	(-20.17)	(-19.68)	(-15.24)	(-21.53)
Lev	-0.208***	-0.172***	-0.250***	-0.348***
	(-30.60)	(-26.84)	(-34.48)	(-42.94)
RD	-0.694***	-0.345***	0.587***	0.606***
	(-9.59)	(-5.33)	(7.60)	(7.38)
Div	-0.002	-0.004*	0.024***	0.033***
	(-1.15)	(-1.86)	(9.48)	(9.26)
ROA	-0.001	0.034*	0.310***	0.430***
	(-0.06)	(1.75)	(17.19)	(17.43)
State	0.006***	0.012***	0.001	-0.016***
	(3.03)	(6.29)	(0.04)	(-6.64)
Constant	-0.005	-0.026	0.338***	0.452***
	(-0.24)	(-1.44)	(14.06)	(19.02)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	11754	10888	11754	10888
Adj. R^2	0.190	0.237	0.250	0.354

Comparison of Coefficients of *FOR_CEO* for Model (1) and (2): χ^2=12.68, p-value=0.000

Comparison of Coefficients of *FOR_CEO* for Model (3) and (4): χ^2=0.72, p-value=0.395

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

In terms of external governance, we apply the number of analysts and the shareholding ratio of institutional investors to measure the level of company's external governance. All results are presented in Table 10. In the first column in Panel A, the coefficient of *FOR_CEO* is negative and significant at 1% level while the coefficient is negative but not significant with more analysts in the second column in Panel A. When the dependent variable is *SFI*, the coefficients of *FOR_CEO* are positive (0.015) and significant at 1% level irrespective of how many analysts there are. Panel B reveals the function of institutional investors. The coefficients of *FOR_CEO* are negative and significant when the dependent variable is *RFI*. On the contrary, no matter how much institutional investors own, *FOR_CEO* has positive and significant effects on *SFI* at 1% level.

Through the empirical study of internal and external corporate governance, we can draw the conclusion that when qualities of internal and external corporate governance are poor, the overseas

experience of CEOs has better governance effect and can effectively inhibit the investment in risky assets.

Table 10

The effect of external governance

Panel A: Analyst

Variables	*RFI*		*SFI*	
	(1) *Low Ana*	(2) *High Ana*	(3) *Low Ana*	(4) *High Ana*
FOR_CEO	-0.012***	-0.004	0.015***	0.015***
	(-3.31)	(-1.59)	(3.91)	(4.41)
MB	-0.097***	-0.043***	0.028***	0.028***
	(-14.44)	(-9.15)	(4.07)	(4.35)
Size	0.021***	0.011***	-0.010***	-0.006***
	(14.25)	(12.41)	(-6.43)	(-5.35)
CFO	-0.196***	-0.152***	0.048***	-0.021
	(-14.25)	(-11.73)	(3.38)	(-1.19)
Net_WC	-0.181***	-0.144***	-0.191***	-0.263***
	(-29.98)	(-25.18)	(-30.65)	(-33.46)
INV	-0.441***	-0.271***	-0.327***	-0.541***
	(-19.19)	(-16.94)	(-13.78)	(-24.47)
Lev	-0.224***	-0.151***	-0.250***	-0.357***
	(-33.98)	(-23.26)	(-36.67)	(-39.88)
RD	-0.722***	-0.249***	0.685***	0.499***
	(-8.81)	(-4.49)	(8.09)	(6.50)
Div	0.002	0.000	0.017***	0.030***
	(1.18)	(0.11)	(6.80)	(8.24)
ROA	0.051***	0.059***	0.315***	0.340***
	(3.03)	(2.83)	(17.87)	(11.79)
State	0.004**	0.004***	0.000	-0.011***
	(2.13)	(2.65)	(0.02)	(-4.56)
Constant	-0.173***	-0.092***	0.440***	0.461***
	(-6.14)	(-5.04)	(15.08)	(18.13)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	11889	10753	11889	10753
Adj. R^2	0.222	0.223	0.252	0.360

Comparison of Coefficients of *FOR_CEO* for Model (1) and (2): χ^2=4.04, p-value=0.044

Comparison of Coefficients of *FOR_CEO* for Model (3) and (4): χ^2=0.00, p-value=0.968

Panel B: Institutional investor

Variables	*RFI*		*SFI*	
	(1) *Low Hold*	(2) *High Hold*	(3) *Low Hold*	(4) *High Hold*
FOR_CEO	-0.011***	-0.005*	0.022***	0.009***

	(-3.12)	(-1.83)	(5.34)	(2.95)
MB	-0.093***	-0.037***	0.091***	-0.035***
	(-14.42)	(-7.35)	(11.75)	(-6.28)
Size	0.014***	0.009***	-0.015***	0.001
	(11.22)	(9.28)	(-9.87)	(0.37)
CFO	-0.163***	-0.208***	0.006	0.041***
	(-11.64)	(-15.90)	(0.39)	(2.85)
Net_WC	-0.158***	-0.176***	-0.224***	-0.218***
	(-25.12)	(-30.70)	(-29.67)	(-34.37)
INV	-0.347***	-0.425***	-0.392***	-0.438***
	(-16.80)	(-22.76)	(-15.76)	(-21.25)
Lev	-0.167***	-0.217***	-0.324***	-0.256***
	(-24.70)	(-33.32)	(-39.73)	(-35.60)
RD	-0.653***	-0.431***	0.747***	0.462***
	(-8.19)	(-6.97)	(7.79)	(6.76)
Div	-0.004*	-0.003	0.035***	0.020***
	(-1.85)	(-1.39)	(11.05)	(7.75)
ROA	0.018	0.004	0.363***	0.348***
	(0.98)	(0.26)	(16.36)	(18.01)
State	0.009***	0.005***	-0.007***	-0.002
	(4.35)	(2.88)	(-2.75)	(-1.14)
Constant	-0.0781***	0.0170	0.553***	0.287***
	(-3.14)	(0.89)	(18.48)	(13.66)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	9914	12728	9914	12728
Adj. R^2	0.208	0.222	0.340	0.280

Comparison of Coefficients of *FOR_CEO* for Model (1) and (2): χ^2=1.74, p-value=0.187

Comparison of Coefficients of *FOR_CEO* for Model (3) and (4): χ^2=5.16, p-value=0.023

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

5.2 The effect of state ownership

Different enterprises have different development goals, organizational structures, and additional aspects that may lead to different impacts from returnees in different types of enterprises. On the one hand, unlike non-state-owned enterprises, which aim to maximize profits or shareholder value, state-owned enterprises bear more external social responsibilities, including solving local employment and infrastructure construction (Piotroski and Wong, 2012). To a certain extent, the

diversification of objectives causes conflicts of interest and can eventually lead to more serious agency problems (Cheung et al., 2008). Therefore, leveraging the ability of overseas talent in state-owned enterprises may be restricted to some extent, and the inhibitory effect on financial assets may be weaker than that of non-state-owned enterprises. On the other hand, compared with local managers, returnees who live abroad for a long time may lack a fundamental understanding of the domestic institutional environment and domestic social resources to overcome the institutional obstacles. At this time, the resource advantages of state-owned enterprises can make up for the shortage of returnees to a certain extent and provide a better platform for returnees to utilize their talents. Therefore, overseas talent can better leverage their own skill sets in state-owned enterprises, and the inhibition of financial assets may be stronger than that of non-state-owned enterprises.

To test the influence of state ownership, we partition the sample based on state ownership. The results in Table 11 indicate that the independent variable is significant at the 1% level both in the State group (0.016) and in the Non-State group (0.014) when the dependent variable is *SFI*. Meanwhile, the coefficients of *FOR_CEO* are both significant and negative in the *State* (-0.013) and *Non-State* group (-0.006). The results show that state ownership does not influence the relationship between overseas CEOs and financial investment.

Table 11
The effect of state ownership

Variables	*RFI*		*SFI*	
	(1) *State*	(2) *Non-State*	(3) *State*	(4) *Non-State*
FOR_CEO	-0.013***	-0.006**	0.016***	0.014***
	(-3.03)	(-2.30)	(3.58)	(4.33)
MB	-0.037***	-0.070***	-0.043***	0.066***
	(-6.43)	(-13.77)	(-7.19)	(10.37)
Size	0.008***	0.012***	0.001	-0.010***
	(8.09)	(11.50)	(1.43)	(-7.65)
CFO	-0.289***	-0.108***	0.049***	0.009
	(-19.45)	(-8.85)	(3.21)	(0.62)

Net_WC	-0.180***	-0.150***	-0.167***	-0.267***
	(-28.25)	(-26.77)	(-25.39)	(-38.12)
INV	-0.437***	-0.342***	-0.388***	-0.450***
	(-20.01)	(-19.22)	(-17.28)	(-20.21)
Lev	-0.242***	-0.145***	-0.213***	-0.362***
	(-34.34)	(-23.09)	(-29.37)	(-46.04)
RD	-0.520***	-0.556***	0.500***	0.668***
	(-6.51)	(-9.14)	(6.08)	(8.76)
Div	-0.000	-0.010***	0.015***	0.039***
	(-0.05)	(-4.11)	(5.75)	(12.90)
ROA	0.047**	-0.037**	0.362***	0.355***
	(2.34)	(-2.36)	(17.44)	(17.83)
Constant	0.040*	-0.052**	0.255***	0.473***
	(1.96)	(-2.50)	(11.98)	(17.85)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	10933	11709	10933	11709
Adj. R^2	0.245	0.175	0.279	0.344

Comparison of Coefficients of *FOR_CEO* for Model (1) and (2): χ^2=2.77, p-value=0.096

Comparison of Coefficients of *FOR_CEO* for Model (3) and (4): χ^2=0.11, p-value=0.740

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

5.3 The effect of CEO financial background

The CEO transforms his cognitive concepts into various financial decisions in actual operations through the company's decision-making system. However, the differences in the CEO's individual characteristics will cause differences in values and behavior patterns, which will affect financial decisions and results. We argue that returnee CEOs with financial background might increase safety financial investment, but are likely to avoid risky financial investment in order to promote long-term shareholders value. Therefore, it is reasonable to investigate the influence of financial background on investment preference of returned CEOs.

To make the conjecture more convincing, we test the relationship between CEOs with foreign experience and risky financial investment under the context of whether CEOs have financial

background. Meanwhile, CEOs' attitudes towards safe financial investment is also verified while CEOs have different financial backgrounds. All results are presented in Table 12. In the first and the second column, the coefficient of *FOR_CEO* is negative and significant whether CEOs have financial background. In the third column, it can be seen that the coefficient of *FOR_CEO* is positive but not significant while the coefficient of *FOR_CEO* is positive and significant at the level of 1%. The results suggest that CEOs with a financial background can make a difference, although the difference is not significant. Generally, when returned CEOs have a financial background, the restraining effect on risky financial assets is stronger, and the promoting effect on safe financial assets is weaker.

Table 12
The effect of CEO financial background

Variables	*RFI*		*SFI*	
	(1) *Financial CEO*	(2) *Non-Financial CEO*	(3) *Financial CEO*	(4) *Non-Financial CEO*
FOR_CEO	-0.015**	-0.008***	0.009	0.017***
	(-2.35)	(-3.26)	(1.30)	(5.91)
MB	-0.061***	-0.057***	0.042***	0.024***
	(-4.51)	(-14.63)	(3.09)	(5.20)
Size	0.018***	0.008***	-0.009***	-0.005***
	(7.54)	(10.77)	(-3.80)	(-5.66)
CFO	-0.189***	-0.182***	0.110***	0.007
	(-6.26)	(-18.25)	(3.55)	(0.61)
Net_WC	-0.205***	-0.160***	-0.222***	-0.219***
	(-14.53)	(-36.50)	(-15.31)	(-42.12)
INV	-0.593***	-0.361***	-0.363***	-0.415***
	(-13.05)	(-25.01)	(-7.75)	(-24.26)
Lev	-0.231***	-0.180***	-0.252***	-0.302***
	(-15.70)	(-36.69)	(-16.65)	(-51.81)
RD	-0.699***	-0.507***	0.646***	0.606***
	(-3.69)	(-10.17)	(3.31)	(10.25)
Div	0.006	-0.006***	0.017***	0.030***
	(0.99)	(-3.55)	(2.74)	(13.95)
ROA	-0.021	0.007	0.309***	0.377***
	(-0.57)	(0.57)	(8.06)	(23.81)
State	0.007	0.008***	-0.000	-0.006***

	(1.53)	(5.77)	(-0.04)	(-3.92)
Constant	-0.143***	0.025*	0.420***	0.386***
	(-3.03)	(1.67)	(8.64)	(21.45)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	2729	19913	2729	19913
Adj. R^2	0.265	0.200	0.284	0.302

Comparison of Coefficients of *FOR_CEO* for Model (1) and (2): χ^2=1.39, p-value=0.238

Comparison of Coefficients of *FOR_CEO* for Model (3) and (4): χ^2=1.29, p-value=0.256

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

5.4 Foreign working experience vs. studying experience

Working and pursuing educational degrees are two ways for CEOs to obtain their foreign experience. Following Yuan and Wen (2018) and Wen et al., (2020), we further consider CEOs' foreign experience in two categories, working experience and studying experience. Specifically, *FOR_CEO_WORK* (*FOR_CEO_STUDY*) is a dummy variable that, if firms hire a CEO with foreign working (studying) experience in firm *i* at year *t* equals one, otherwise zero. Table 13 presents the results of the test. The coefficients on *FOR_CEO_WORK* and *FOR_CEO_STUDY* in columns (1) and (2) are negative but not significant when the dependent variable is *RFI*. The coefficients on *FOR_CEO_WORK* and *FOR_CEO_STUDY* in columns (3) and (4) are positive and statistically significant when the dependent variable is *SFI*. These results indicate that both CEOs' working and studying experience have important impacts on corporate financial investment.

Table 13

Foreign studying experience vs. working experience

Variables	*RFI*		*SFI*	
	(1)	(2)	(3)	(4)
FOR_Work_CEO	-0.004		0.014**	
	(-0.88)		(2.29)	
FOR_Study_CEO		-0.004		0.014**
		(-0.88)		(2.29)

MB	-0.059***	-0.059***	0.025***	0.025***
	(-7.39)	(-7.39)	(2.89)	(2.89)
Size	0.010***	0.013***	-0.005***	-0.005***
	(5.72)	(5.72)	(-2.87)	(-2.87)
CFO	-0.187***	-0.187***	0.022	0.022
	(-10.27)	(-10.27)	(1.42)	(1.42)
Net_WC	-0.167***	-0.167***	-0.218***	-0.218***
	(-13.93)	(-13.93)	(-20.26)	(-20.26)
INV	-0.395***	-0.395***	-0.408***	-0.408***
	(-15.28)	(-15.28)	(-15.40)	(-15.40)
Lev	-0.190***	-0.190***	-0.295***	-0.295***
	(-12.68)	(-12.68)	(-22.72)	(-22.72)
RD	-0.539***	-0.539***	0.610***	0.610***
	(-6.82)	(-6.82)	(6.14)	(6.14)
Div	-0.004*	-0.004*	0.028***	0.028***
	(-1.65)	(-1.65)	(10.57)	(10.57)
ROA	0.004	0.004	0.364***	0.364***
	(0.20)	(0.20)	(15.35)	(15.35)
State	0.008**	0.008**	-0.007**	-0.007**
	(2.26)	(2.26)	(-2.11)	(-2.11)
Constant	-0.003	-0.003	0.387***	0.387***
	(-0.11)	(-0.11)	(10.23)	(10.23)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Obs#	22642	22642	22642	22642
Adj-R^2	0.206	0.206	0.295	0.295

t-Statistics in the brackets are based on standard errors adjusted for clustering at firm level. *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 level (two-tailed), respectively. All continuous variables are winsorized at the 1st and 99th percentiles.

6. Conclusion

Human capital is of great importance to the long-term development of micro-enterprises and the sustained growth of the macro-economy. Unique relative to previous research, this paper starts with the allocation of financial assets by enterprises and takes China's A-share-listed companies from 2008 to 2016 as a sample to study the impact of executives' overseas experience on corporate financial investment and the specific mechanism through which this impact acts. We find that overseas experience can help improve the company's governance level and suppress short-sighted

behaviors, such as financial investment. The results hold after controlling for potential endogeneity and possible omitted variable issues and in a change analysis. Further analysis reveals that the negative relationship is much stronger when returnee directors have obtained their foreign experience from countries or regions with over-developed financial markets. We also find that only when returnee directors have studied and obtained certification overseas can they play an effective withholding role in corporate financial investment. Moreover, we find that returnee directors have increased real investment, such as R&D and fixed asset, indicating that their professional knowledge and the skills that they obtained overseas could promote real investment efficiency and reduce financial investment. Returnee directors in firms with better corporate governance have greater impacts on reducing financial investment than those in firms with poorer corporate governance. In addition, we find that the negative relationship is more pronounced in provinces with more developed financial markets. Finally, we find that the highly-significant negative relationship is indifferent to private firms and state-owned firms.

This study adds new evidence that director heterogeneity matters for corporate decision-making such as financial assets investment. Our paper also contributes to the growing literature on examining the economic consequences of directors' or executives' foreign experience. Our findings provide some insights on the practices of corporate governance by attracting foreign talents to help firms reduce financial asset investment. From the government perspective, realizing that returnee directors can effectively help corporate investment in industrial activities, the government could put more effort on its returnee talents policies.

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