

Study of the Impact of CEO Financial Experience on Corporate Financialisation-based on the Perspective of the Moderating Role of Corporate Cash Flow

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Abstract

With the opening up of policies and the lowering of national entry thresholds in the financial industry, various types of enterprises have ventured into the financial industry, which has, to varying degrees, increased the proportion of real enterprises investing in financial assets and real estate investments. In order to increase the management of such assets, more and more CEOs with financial experience have been hired. CEOs not only play a role in the company's strategic and operational decisions, but also their financial background has an important impact on the allocation of financial asset structure and the maximisation of corporate value.

Keywords

CEO Financial Experience; Corporate Financialisation; Financing Constraints; Cash Flow.

1. Introduction

With the rise of the property market and the development of platform fintech in recent years, more and more real economy is involved to share the development dividend. Competition in the real economy has intensified, the advantage of low-cost strategy has weakened, and the profit level of real enterprises has continued to decline, on the contrary, the profit margin of the broad asset-light financial industry has increased from about 14% in 2004 to about 40% in 2018 (Zhang Chengshi, 2019), and the profitability model of financial and real estate tracks has gradually become an important way for real enterprises to participate in them, and the profits obtained from financial channels have become an important part of the profit source. Financialisation has brought impact to real enterprises, becoming the so-called "de-realisation to emptiness", which is not conducive to the national manufacturing strategy. Some scholars have proposed that the financialisation of enterprises has become an enabler of financial leverage (Liu Guanchun et al., 2018), increased the financial risk of the collapse of listed companies' share prices (Peng Yuchao et al., 2018), reduced investment efficiency and the scale of investment in the real economy, and because the funds are occupied by financial capital, the real enterprises weakened the investment of funds in technological research and development and innovative products, which has a significant impact on the profitability and performance of the real enterprises and the future performance of the company. and the future performance of the company has an obvious "crowding out effect" (Du Yong et al., 2017). At present, the state advocates industrial transformation and upgrading and the Made in China 2025 strategy, the financialisation of corporate entities is not conducive to the transformation and upgrading of industrial structure, and the high-quality development of real enterprises needs financial support, and the "deconstruction to emptiness" has caused an increase in the difficulties of real economic transformation, and the financial and social risks will be pushed up accordingly.

2. Research Purpose

Different economic environments have different willingness and formation mechanism of enterprise financialisation, from the micro perspective of individual characteristics of corporate executives to explain the formation mechanism of enterprise financialisation, combined with the "branding theory" to explore the following issues: (1) the financial experience of the CEO so that he or she has the experience of financial management work and professional knowledge reserves, and has the financial face of the network of resources. (1) The financial experience of the CEO makes him/her more familiar with the risks and operational aspects of the financialisation of the enterprise, and whether he/she plays a catalyst role in the process of the financialisation of the enterprise. (2) Whether the professional and management advantages of CEOs with financial experience affect their corporate governance and profitability functions under financing constraints. (3) What is the role of cash flow in correlating CEO financial experience with corporate financialisation governance. It is necessary to empirically analyse the role of corporate cash flow in the CEO financial experience and corporate financialisation mechanism and its specific effects, and provide branding related theoretical explanations and empirical evidence to support, in order to effectively prevent the "out of the real to the virtual" behaviour to provide micro-level evidence.

3. Literature Review and Research Hypothesis

Stockhammer (2010) highlights the shift in management preferences caused by hostile takeover campaigns and changes in compensation structures, which align their interests with those of shareholders. As a result of these shifts, non-financial firms became more tenant-like, abandoned their growth-oriented corporate strategic objectives and started investing in financial markets.

On the part of domestic scholars, financialisation crowds out firms' R&D investment and undermines firms' innovation, based on the perspective of the nature of property rights, it was found that financialisation of state-owned enterprises (SOEs) significantly inhibits the total factor productivity of the firms' main business. Wang Hongjian (2017) suggested that financialisation of non-financial enterprises can reduce financing costs and improve profits for the private economy. Du Yong (2017) points out that in good performance enterprises, financialisation has a significant increase in their profitability, on the contrary, if the enterprise operates poorly, financialisation accelerates the deterioration of enterprise performance, and the financialisation of non-financial enterprises promotes their detachment from the main business. There are several main motivations for enterprises to engage in financialisation: Firstly, the decline in corporate profitability has caused capital to start shifting more from the production field to the financial field; secondly, the concept of corporate governance has changed, and the management is more concerned about the short-term return of high yield from investment in the financial field; thirdly, from the perspective of class exploitation, financialisation is to compensate for the effect of capital looting on capital accumulation. Huang Xianhuan et al. (2019) explored the causes of financialisation from the three aspects of shareholder values, main business, and policy environment, and found that the performance of rising enterprises will have a significant impact on corporate financialisation.

In summary, scholars have mixed feelings about the causes and effects of enterprise financialisation, i.e., some believe that financialisation can help enterprises improve asset liquidity and reduce the "reservoir" effect of exogenous financing, while others believe that excessive financialisation of enterprises crowds out the "crowding out effect" of the enterprise's main business. The "crowding out effect". Enterprises in different economic and social environments, the same question can be answered from different perspectives, the current impact of the epidemic and the transformation and upgrading of enterprises in the

stage of high-quality development, through the theory of branding to empirically test this proposition is of practical significance.

Upper Echelons Theory points out that, due to the environmental uncertainty in the process of enterprise operation and development, on the premise of limited rationality of enterprise managers, their own cognitive inability to control the overall situation of the enterprise, and at the same time, because of the differences in the social and work experience of the enterprise executives, the values also differ. Values determine the decision-making and effectiveness of the enterprise (Hambrick and Mason, 1984), and the CEO, as the "decision maker" of the enterprise, is the main formulator of the enterprise's business decisions, and his or her inherent cognition and ability will inevitably affect the enterprise's financial investment and financing methods, which in turn will affect the degree of the enterprise's financialisation.

The "stigma theory" has two characteristics. Firstly, there will be a sensitive period in the growth of the organisation, which is more susceptible to external influences and viruses, and when the organisation is outside the sensitive period, it is more adaptable to the external environment. Secondly, the heterogeneous characteristics of organisational behaviour that emerge from a particular period of time; such organisational behavioural characteristics will settle and become the company's behavioural culture in the long term (Krippner, G, 2005). CEOs with financial experience will make use of their own financial expertise, have a clearer perception of financial risks, and can better identify and control financial risks in the operation process; due to their trust, CEOs with financial background will have a greater tendency to invest corporate assets in the financial market and improve the level of corporate financialisation.

In summary, this paper proposes the following hypotheses.

Hypothesis 1: CEO financial experience has a positive promotion effect on corporate financialisation.

CEOs with financial experience are more familiar with bank credit policies, reducing information asymmetry and obtaining more favourable loan conditions. In summary, CEOs with financial experience are easy to get hired, use them to expand financing channels, reduce the cost of funds, financing constraints are eased, and it is easy to get funds to invest in financial products, which promotes the financialisation of enterprises. Therefore, this paper argues that when the CEO of an enterprise has had work experience in a financial institution, the degree of financialisation of its enterprise will be higher than that of other enterprises to a certain extent, and can be achieved by reducing the enterprise financing constraints.

Therefore, this paper proposes the following hypotheses.

Hypothesis 2: CEO financial experience has a mitigating effect on corporate financing constraints and indirectly promotes financialisation behaviour.

Hypothesis 3: The better a firm's operating cash flow is, the more CEOs with financial experience are driven to promote corporate financialisation.

4. Research Methodology

4.1. Sample Selection and Data Source

Screening China's Shanghai Stock Exchange and Shenzhen Stock Exchange using EXCEL and SPSS software to clean and process the data, deducting listed companies in the financial and securities category, listed companies in the real estate category, companies with incomplete and missing data, and deducting companies in the ST category with risk warnings; and finally obtaining the data of 2,112 sample companies, a total of 16,832, with the information coming

from Cathay Pacific's database (CSMAR) and the online query of Chinese stock market, and the empirical study was conducted by using SPSS software.

4.2. Variable Setting

The article first tests the relationship between CEO financial experience and financialisation, and subsequently demonstrates the role of financing constraints in CEO financial experience and corporate mechanism in financialisation. Again from the perspective of corporate cash flow, it argues that cash flow plays a moderating role in CEO financial experience and financialisation.

4.3. Model Construction and Empirical Analysis Steps

Based on the above variable relationship and analysis, the model is constructed and the empirical analysis steps are formulated as follows.

The first step is to verify the hypothesis 1 of this paper and construct model (1):

$$\text{Fin} = a_0 + a_1 \text{Finback} + a \text{Controls} + \varepsilon \quad (1)$$

Fin is corporate financialisation; Finback is CEO financial experience; Controls is a set of control variables and ε is the residual term. Based on Hypothesis 1, the expectation factor a_1 is significant and greater than 0, i.e., it proves that CEO financial experience (Finback) is a corporate financialisation (Fin) driver.

In the second step, to verify the hypothesis 2 of this paper, construct models (2), (3).

$$\text{SA} = \beta_0 + \beta_1 \text{FinBack} + \beta \text{Controls} + \varepsilon \quad (2)$$

$$\text{Fin} = \gamma_0 + \gamma_1 \text{FinBack} + \gamma_2 \text{SA} + \gamma_3 \text{Controls} + \varepsilon \quad (3)$$

Firstly, by verifying the total impact factor a_1 of the CEO's financial background; secondly, by verifying the impact factor β_1 of the CEO's financial experience on financing constraints; and finally, by testing γ_1 and γ_2 . a_1 significance and greater than 0. When β_1 is significant and less than 0, and γ_2 is significant at the same time, it means that financing constraints have a significant mediating effect. In view of the above conditions, if the coefficient γ_1 is significant, it can be regarded as a partial mediation effect; if γ_1 is not significant, it can be regarded as a complete mediation effect.

The second step, for the verification of hypothesis 3, whether the enterprise cash flow in Figure 1 has a moderating effect, construct model (4), model (5) as follows.

$$\text{Fin} = \zeta_0 + \zeta_1 \text{FinBack} + \zeta_2 \text{controls} + \varepsilon \quad (4)$$

$$\text{Fin} = \delta_0 + \delta_1 \text{FinBack} + \delta_2 \text{FinBack} * \text{Cfo} + \delta_3 \text{Cfo} + \zeta_4 \text{controls} + \varepsilon \quad (5)$$

According to hypothesis 3 of this paper, it is expected that the coefficient of the interaction term between CEO financial experience and cash flow δ_2 is significant and greater than 0. That is to say, the corporate cash flow Cfo has a positive moderating effect on the relationship between the degree of corporate financialisation and the CEO's financial experience, and it can increase the propensity of corporate financialisation of CEOs with financial experience.

5. Empirical Analysis

5.1. Descriptive Statistics

Descriptive Statistics of Explained Variables. The results show that in the sample data, the mean value of the dependent variable corporate financialisation (Fin) is 0.06, indicating that the proportion of financial assets in the total assets of the enterprise is 6%, which shows that in an average sense, the weight of financial assets of the sample enterprises is not very high; the maximum value of Fin is 53.65%, which is above the average, and the minimum value is 0, which is a big difference between companies. The mean value of the variable of the CEO's financial experience is 0.13, indicating that in an average sense, about 13% of all CEOs in the sample firms have had work experience in financial institutions; Finback its standard deviation is 0.341, which indicates a large disparity in the characteristics of CEOs' financial backgrounds across the full sample of firms. The mean value of SA is -3.707, with a maximum of -2.38 and a minimum of -4.31, which suggests that there is a large disparity among finance-constrained firms. The difference between the mean and median of each control variable is small and generally normally distributed.

5.2. Correlation Analysis of Variables

The results show that the correlation coefficients between the variables are both positive and negative, but the absolute value of the positive and negative numbers are below 0.6, indicating that there is no serious multicollinearity between the variables to a certain extent. Fin and Finback coefficients are 0.123, which indicates that they have a positive effect and are significant at the 1% level. Person correlation coefficient matrix can only express the correlation relationship between the variables, and cannot take into account the time effect and the industry correlation coefficient. The Person correlation coefficient matrix can only represent the correlation relationship between variables, and cannot take into account the influence of factors such as time effect and industry effect, so this paper needs to be combined with further empirical tests to ensure the reliability of the conclusions. In addition, there is no significant correlation between the control variables and the explanatory variable CEO financial experience (Finback), so this paper can be further regression.

5.3. Effect of CEO Financial Experience on Financialisation of Firms

To test hypothesis 1, regression analysis is conducted on the sample based on model (1). The regression results show that for the explanatory variable enterprise financialisation (Fin) and the explanatory variable CEO financial background (Finback) regression, the regression results after adding control variables show that the adjusted R-squared 0.099 has a 1% level of significance. the regression coefficient of the CEO's financial experience (Finback) is 0.027, with a positive sign, which indicates that having a finance background CEO has a facilitating effect on the financialisation of enterprises, the significance level value is 0.000, indicating that it is significant at the 1% level; the results indicate that CEOs with financial experience can improve the financialisation of enterprises, i.e., Hypothesis 1 is valid.

5.4. Financing Constraints Mediation Effect Test

Hypothesis 2 The main study is whether the CEO's financial background can reduce the enterprise's constraints in financing and thus promote the degree of financialisation of the enterprise, in order to test the hypothesis, this paper constructs model (2) and model (3) on the basis of model (1) to regress the sample data.

The regression results of model (2) and model (3) are shown in Table 3, using a two-level regression scheme. Model (1) has proved that CEO financial experience can increase the degree of financialisation of firms, so the next test is conducted on this basis. The results of the test of model (3) show that model (3) adds the control variable financing constraints (Sa) compared

to model (2), with an increase in the change in R-squared of 0.004, from 0.101 to 0.104, with a significance level of 1%. Table 4 shows that the Finback regression coefficient in model (2) is positive 0.027 indicating a positive relationship, which indicates that CEO financial experience (Finback) increases corporate financing constraints (SA). The regression results of model (3) show that after the introduction of the mediating variable financing constraints, the significant relationship between CEO financial experience background (Finback) and corporate financialisation (Fin) does not change, but the regression coefficient improves from 0.027 without the inclusion of financing constraints (SA) to 0.028; Financing constraints have a significant effect on corporate financialisation, with a coefficient of -0.056, which is significant at the 1 percent level is significant and negative, proving that financing constraints have a partially mediating effect between CEO financial experience and corporate financialisation, that is to say, CEO financial experience can significantly reduce the constraints of enterprises in financing, and further increase the level of corporate financialisation, indirectly illustrating that financing constraints are the intermediate path of the relationship, i.e., Hypothesis 2 holds.

5.5. Test of Corporate Cash Flow Regulation Effect

In order to verify hypothesis 3, this paper carries out regression analysis on the sample data according to model (4) and model (5).

The regression results of model (4) model (5), model (5) added a moderating variable corporate cash flow (Cfo) as well as the cross-multiplier term between the independent variable Finback and the moderating variable Cfo. The change in the modified R-squared is 0.001, indicating that model 5 has a better explanatory effect. The coefficient of the cross-multiplier term is 0.062, with a significance level value of 0.001, which is significant at 1 per cent level. From the regression results, it can be seen that this indicates that the increasing effect of CEO financial experience on corporate financialisation will be strengthened when the quality of corporate cash flow is better, i.e., good internal corporate cash flow has a positive moderating effect on the relationship between CEO financial experience and corporate financialisation, which can promote the financialisation tendency of CEOs with financial experience to a certain extent, i.e., hypothesis 3 is valid.

6. Conclusion

Through the empirical analysis of the sample statistics of 2112 16832 annual reports of listed companies in Shanghai and Shenzhen from 2012 to 2019, it is concluded that (1) the CEO financial experience can significantly promote corporate financialisation; (2) the CEO's financial experience can alleviate the restrictions of corporate financing, which has a positive effect on corporate financialisation; and (3) good corporate cash flow has a positive moderating effect on corporate financialisation. The hypothesis of this paper verifies the applicability in different economic situations, enriches the research on corporate financialisation in the micro field from the personal characteristics of managers, and provides data references for the rational selection of managers and corporate financialisation from the perspective of corporate cash flow.

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