Does top executives' US experience matter? Evidence from US-listed Chinese firms

Jingjing Li [a,*], Minghai Wei [a], Bingxuan Lin [b]

[a] *School of Business, Sun Yat-sen University, China*
[b] *College of Business Administration, University of Rhode Island, USA*

ABSTRACT

Foreign firms face enormous obstacles in attracting investors and analysts when issuing securities in the United States. We use US-listed Chinese firms as our research sample and find that firms that hire top executives (i.e., Chief Executive Officer [CEO] or Chief Financial Officer [CFO]) with work experience in the US or educational qualifications from the US attract more US institutional investors and analysts. Further, we find that CFOs' US experience dominates the results. Corroborating our results, we further find that firms with US-experienced CFOs are more likely to hold conference calls and voluntarily issue management forecasts, which suggests that CFOs with a US background are better at communicating with US investors and analysts and acting in alignment with US norms compared with Chinese CFOs. Collectively, our results suggest that hiring a CFO with a US background could facilitate cross-listed foreign firms to lower US investors' and analysts' information disadvantage.

1. Introduction

Foreign firms that trade their equity on US stock exchanges face serious obstacles in attracting US investors and analysts due to the linguistic, procedural, and institutional differences between their home country and the United States (Lundholm et al., 2014). This paper examines the favorable effects of top executives' US background in attracting US institutional investors and analysts using data from US-listed Chinese firms. We predict that US-listed Chinese firms whose top executives have experience in working in the US attract more US institutional investors and analysts. First, we conjecture that executives with a US background perform better in communicating with US institutional investors and analysts. Due to their US experience,

* Corresponding author.
E-mail addresses: ljingjing3-c@my.cityu.edu.hk (J. Li), mnswmh@mail.sysu.edu.cn (M. Wei), blin@uri.edu (B. Lin).

they generally have an advantage in understanding US business culture and interacting with US business people. More importantly, they may have a better understanding of what US investors and analysts expect, and tend to act in alignment with US norms. Second, Beatty et al. (2013) find that the likelihood of financial fraud in US-listed Chinese firms is significantly lower if the Chief Executive Officer (CEO) was educated in North America. Based on this evidence, we argue that hiring top executives with a US background can potentially serve as a kind of reputational insurance mechanism. Executives who have worked in the US should better understand the stringent regulations and pay more attention to their reputations in the US market than Chinese executives. Therefore, firms that hire top executives with a US background may build an image of a well-bonded corporation, and thus US institutional investors and analysts prefer to follow them. Third, hiring executives with a US background could reduce the "psychological distance" between US investors and foreign firms. Grinblatt and Keloharju (2001) find that investors in Finland prefer to hold and trade with firms with CEOs of a similar cultural origin. We argue that top executives with a US background can reduce US investors' psychological distance, and thus are expected to attract more US institutional investors. Based on at least these three factors, we predict that US institutional investors and analysts exhibit a preference for US-listed Chinese firms with top executives with US work experience.

Using US-listed Chinese firms as our research sample, we find that firms with top executives (i.e., CEO or Chief Financial Officer [CFO]) who have work experience in the US attract more US institutional investors and analysts than firms with Chinese top executives. Further, we find that CFOs with US experience dominate the results. To eliminate the endogenous innate ability argument, we control for CFO innate ability following Giannetti et al. (2014) and the results remain consistent. We also use the two-stage Heckman method to eliminate selection bias and the results remain consistent. We acknowledge, nevertheless, that we cannot totally resolve the endogenous firm-executive matching problem. As supporting evidence, we find that the disclosure practices of CFOs with US experience differ from those of Chinese CFOs, with the former more likely to hold conference calls and voluntarily issue management forecasts. The findings suggest that CFOs with a US background are better at communicating with US investors and analysts, and act in ways that are more consistent with US norms.

Our study contributes to the literature in several ways. To the best of our knowledge, this is the first study to examine the effect of executives' US experience on disclosure practices, and consequently analyst following and institutional holdings, using the setting of US-listed Chinese firms. Our results suggest that hiring top executives with a US background can facilitate US-listed Chinese firms to mitigate home bias and obtain US investment. The results lead to a deeper understanding of the mechanisms that can help Chinese firms to obtain international resources and may well be generalizable to all cross-listed foreign firms on US exchanges.

This paper also extends the literature that examines managerial characteristics or traits (Bertrand and Schoar, 2003; Bamber et al., 2010; Dyreng et al., 2010; Malmendier et al., 2011; Cronqvist et al., 2012, among others). The upper echelons theory from the management literature argues that top managers often face complex situations that do not have calculable solutions. As such, managers are more likely to make strategic choices based on their personal experiences and backgrounds (Hambrick and Finkelstein, 1987; Hambrick, 2007). We observe a meaningful managerial characteristic in the context of US-listed Chinese firms, namely CFOs with a US background, and find that it has a favorable influence in attracting US institutional investors and analysts beyond the previously documented firm-level determinants.

The remainder of the paper proceeds as follows. Section 2 provides the literature review and hypothesis development. Section 3 explains our sample selection and descriptive statistics. Section 4 contains our research design and main results, while Section 5 shows robustness and additional tests. Section 6 concludes the paper.

2. Literature review and hypothesis development

Foreign firms that trade their equity on US stock exchanges face serious obstacles in attracting US investors and analysts. Lundholm et al. (2014) find that foreign firms that provide clearer disclosure have more US institutional ownership, whereas Lundholm et al. (2014) consider reporting quality, we document that foreign

firms can attract more US institutional investors by hiring top executives with a US background. There are three potential reasons, as follows.

First, top executives of foreign firms, especially CFOs, who have work experience in the US may perform better in communicating with US investors and analysts. Due to their US experience, they generally have an advantage in understanding US business culture and how to interact with US business people. More importantly, they are more familiar with what US investors expect and more likely to act in alignment with US norms. Therefore, we argue that CFOs with US experience are better at communicating with US investors and analysts.

Second, we argue that hiring top executives with a US background can potentially serve as a kind of reputational insurance mechanism. Top executives who have worked or are currently working in the US should better understand the stringent regulations and pay more attention to their reputations in the US market than those who work in the Chinese market. Therefore, firms that hire top executives with a US background may build an image of well-bonded corporations, and thus US institutional investors will prefer to invest in those firms. Consistent with our reputational bonding argument, Beatty et al. (2013) find that the likelihood of financial fraud in US-listed Chinese firms is significantly lower if the CEO was educated in North America.

Third, top executives' US background may reduce the "psychological distance" between Americans and foreign firms. Grinblatt and Keloharju (2001) use the unique setting of Finland where there are two cultural origins and find that investors prefer to hold and trade with firms whose CEO is of a similar cultural origin. Consequently, top executives with a US background may increase US investors' familiarity with foreign firms and reduce their psychological distance, and hence these firms are expected to attract more institutional investors. Based on the above analyses, we predict that US institutional investors and analysts exhibit a preference for US-listed Chinese firms with top executives with US work experience.

We use US-listed Chinese firms[1] as our research sample. China is geographically and culturally distant from the US. China's legal system originated from Roman Civil Law and differs from US Common Law. Allen et al. (2005) compare overall investor protection in mainland China with the countries included in La Porta et al. (1998). They find that mainland China is rated one of the worst and the US one of the best financial markets in terms of investor protection. Therefore, there is a significant gap between China and the US, and Chinese firms may face considerable difficulty in attracting US investors and analysts. We use US-listed Chinese firms as our research sample to examine whether hiring executives with US experience could help firms to attract US investors and analysts.

Based on the above analysis, we state our hypotheses as follows:

H1: US-listed Chinese firms with top executives who have worked in the US attract more institutional ownership.
H2: US-listed Chinese firms with top executives who have worked in the US attract higher analyst following.

3. Sample selection and descriptive statistics

Our sample period is 2006-2012. We compile a sample of US-listed Chinese firms from various sources: (1) Wind database, (2) Bank of New York, which provides a list of ADRs on its website, (3) Sina Finance website, and (4) Compustat. We exclude firms that are headquartered outside mainland China by reviewing the corporate profiles. We also exclude financial firms. As a result, our final sample comprises 213 US-listed Chinese firms.

Generally, the CFO, Investor Relations Officer or Vice President of Investor Relations takes charge of investor relations development and mostly communicates with analysts and institutional investors. We hand collect the profiles of all of the top executives from firms' annual reports and proxy statements and find that

---

[1] Based on the closing price on 19 Sep 2014, the overall market value of Chinese firms' trading equities in the US is more than 1.4 trillion dollars, which is higher than Spain's total GDP for the whole of 2013 (i.e., 1.36 trillion dollars).

few of the firms in our sample specifically disclose information on the Investor Relations Officer or Vice President of Investor Relations. Therefore, we mainly focus on two top executives: (1) the CFO, who is in charge of information disclosure and communicating with analysts and institutional investors; and (2) the CEO, who takes overall charge of corporate management. We manually extract information on the CEOs' and CFOs' work experience and educational background from SEC filings, such as annual reports and proxy statements.

Financial data are extracted from Compustat. Analyst data are obtained from Institutional Broker's Estimate System (IBES). Institutional investor data are taken from TR 13f. We hand collect all of the required information from 10-Ks, 20-Fs, and proxy statements filed by Chinese firms during the sample period, including insider ownership (holdings by the firms' officers and directors), foreigner blockholders (non-Chinese owners with 5% ownership or higher), board characteristics (board size, board independence), and whether the CEO is the founder of the firm. We also hand collect the conference call and management forecast data from current reports (i.e., 8 k, 6 k). The variable definitions are summarized in Appendix A.

Table 1 Panel A describes the distribution of firm-year observations by year. It shows that approximately 40% of CEOs or CFOs have worked in the US. Panel B shows the distribution of firm-year observations by Fama-French industry categories. It shows that US-listed Chinese firms are concentrated in the manufacturing and business equipment industries, with 28 (13%) and 77 (36%) of firms, respectively. Panel C describes the distribution of sample firms by listing method. In our sample, 88 firms are listed on exchanges via reverse mergers and 125 through the IPO process, and among the latter, 101 firms are listed by issuing American Depositary Receipts (ADRs).

Table 1
Distribution of observations.

Year	#Obs	#WorkUS	Percent (%)
Panel A: Distribution of firm-year observations during the sample period			
2006	50	18	36.00
2007	89	33	37.08
2008	129	45	34.88
2009	146	65	44.52
2010	180	84	46.67
2011	165	78	47.27
2012	136	58	42.65
Total	895	381	42.57

Fama-French industry classification	#Firms	#Firm-year obs
Panel B: Distribution of firms by Fama-French industry classification		
Consumer non-durables	16	72
Consumer durables	7	28
Manufacturing	28	120
Oil, gas, and coal extraction and products	7	31
Chemicals and allied products	9	33
Business equipment	77	336
Wholesale, retail, and some services	15	50
Healthcare, medical equipment, and drugs	22	94
Other	32	131
Total	213	895

Listing method	Freq.	Percent
Panel C: Distribution of firms by listing method		
Reverse merger	88	41.31
ADRs	101	47.42
Direct listing	24	11.27
Total	213	100

Table 2 Panel A provides the descriptive statistics of the continuous variables. The means for analyst coverage (#Analysts) and number of institutional investors (#InstOwners) are 5.55 and 40.82, respectively, and the maximum values for Analysts and #InstOwners are 54 and 415, respectively. The mean of institutional ownership (%InstHolding) is 15.46% and the maximum value is 99.43%. We also provide the statistics for firm size (Size), board size (BoardSize), insider ownership (InsiderOwn), the proportion of independent directors on the board (Independence), and financial indicators such as return on assets (ROA), leverage (Lev) and the book-to-market ratio (BMR).

Table 2 Panel B provides the descriptive statistics for the discrete variables. We construct a dummy variable, WorkUS, to capture top executives' work experience in the US, which equals 1 if the CEO or CFO has worked in the US, and otherwise 0. We construct another dummy variable, WorkOverseas, to capture executives' work experience outside mainland China, excluding the US. WorkOverseas equals 1 if the CEO or CFO has worked overseas excluding the US, and otherwise 0.

Panel B shows that 43% of observations have CEOs or CFOs who have worked in the US, and 38% of observations have CEOs or CFOs who have worked in other countries or regions outside mainland China, excluding the US. Overall, this means that 80% of firm-year observations have top executives who have worked overseas, and 20% of firm-year observations have top executives who have worked only in China mainland.

We construct two variables, CEOworkUS and CFOworkUS, to explicitly capture CEOs' and CFOs' work experience in the US, respectively. Correspondingly, we construct another two variables, CEOWorkOverseas

Table 2
Descriptive statistics.

	Obs.	Mean	S.D.	Min.	Max.
Panel A: Descriptive statistics for continuous variables					
#Analysts(unlogged)	895	5.55	8.20	0	54
#Analysts(logged)	895	1.25	1.11	0	4.01
InsiderOwn	895	36.95	22.80	0	95.10
Size	895	5.60	1.48	2.23	12.76
BMR	895	3.16	14.06	0.10	25.36
BoardSize	895	6.41	1.91	1	14
Independence	895	0.56	0.15	0	1
ROA	895	0.05	0.18	(1.73)	0.66
Lev	895	0.34	0.22	0.02	1.27
#InstOwners(unlogged)	716	40.82	47.92	1	415
#InstOwners(logged)	716	3.18	1.10	0.69	6.03
%InstHolding	716	15.46	18.17	0.00028	99.43
Call	895	2.54	1.68	0	6
MF	895	2.14	2.37	0	17
Panel B: Descriptive statistics for dummy variables					
WorkUS	895	0.43	0.49	0	1
WorkOverseas	895	0.38	0.49	0	1
CEOworkUS	895	0.16	0.37	0	1
CFOworkUS	895	0.36	0.48	0	1
CEOWorkOverseas	895	0.10	0.30	0	1
CFOWorkOverseas	895	0.35	0.48	0	1
CEOeduUS	895	0.18	0.38	0	1
CFOeduUS	895	0.47	0.50	0	1
CEOeduOverseas	895	0.09	0.29	0	1
CFOeduOverseas	895	0.24	0.43	0	1
CEOpreIPO	895	0.82	0.39	0	1
CFOpreIPO	895	0.54	0.50	0	1
Founder	895	0.69	0.46	0	1
Blockholder	895	0.57	0.50	0	1
Independence	895	0.56	0.15	0	1
RM	895	0.40	0.49	0	1

and CFOWorkOverseas, to explicitly capture CEOs' and CFOs' work experience overseas excluding the US, respectively. Panel B shows that 16% of the CEOs and 36% of the CFOs in our sample have worked in the US, and 10% of CEOs and 35% of CFOs have worked overseas but not in the US. This means that the percentages of CEOs and CFOs in our sample who have worked only in mainland China are 73% and 29%, respectively. We also extract the investment banking experience of CEOs and CFOs in their early careers and find that 12.96% of CFOs have worked in an investment bank, while the percentage for CEOs is only 1.45%.

We use the abovementioned variables as primary indicators in our main tests. As a robustness check, we construct another series of variables to capture CEOs' and CFOs' US or overseas experience based on their educational background rather than their career path. First, we construct the variables CEOeduUS and CFOeduUS to capture whether the CEO and the CFO were educated in the US. Then, we construct another two variables, CEOeduOverseas and CFOeduOverseas, to capture whether the CEOs and CFOs were educated abroad but excluding the US. The percentages of CEOs who were educated in the US and other foreign countries or regions are 18% and 9%, respectively. Correspondingly, the percentages for CFOs are 47% and 24%, respectively. This means that 73% of CEOs and less than one-third of CFOs had their education in mainland China. The CFOs are clearly more internationalized than the CEOs in our sample.

We also manually collect data on CFOs' undergraduate universities or institutions. In summary, 15.53% of CFOs graduated from universities or colleges that are not included in the ''211 program'' in China; 30.28% of CFOs graduated from universities that are members of the ''211 program'' but not the ''985 program''; 18.66% of CFOs graduated from the top tier universities that are members of the ''985 program''; and 35.53% of CFOs graduated from universities or institutions overseas.

We also summarize the highest educational qualifications of CEOs and CFOs. A significantly higher percentage of CFOs (40%) than CEOs (15.76%) received an MBA degree, whereas 13% of CEOs received a Ph.D. compared with 2.09% of CFOs.

We also construct two variables to measure whether the CEO or CFO joined the firm before the IPO, CEOpreIPO and CFOpreIPO, respectively. We find that 82% of the CEOs in our sample joined their firms before the IPO; 69% of CEOs were the founder or co-founder of their firms; and 54% of CFOs joined before the IPO.

In Table 3, we describe the main dependent variables in our research. We collect institutional ownership positions from Thomson Financial's 13-F filings database. We measure institutional holdings using the most recent data prior to the end month of fiscal year.[2]

The mean of #InstOwners is 40.82. Approximately 26% of observations have less than 10 institutional investors, including 78 firms listed through reverse mergers; 48.5% of observations have between 11 and 50 institutional investors; 15% of observations have between 50 and 100 institutional investors; 9.4% of observations have between 100 and 200 institutional investors; and 1.2% of observations have more than 200 institutional investors.

The mean institutional ownership is 15.46%; approximately 36% of observations have less than 5% institutional ownership, of which 15% of observations were listed through reverse mergers; approximately half of the observations have between 5% and 30% institutional ownership; and the remaining 15% of observations have more than 30% institutional ownership.

We also provide a detailed distribution of the analyst coverage variable. We collect analysts' data from the IBES database. We measure analyst following using the most recent data prior to the last month of the fiscal year and set missing analyst data to zero. The data for analyst coverage are left-censored at 0. Approximately 18% of observations have up to two analysts following the firm; 32% of observations have between 3 and 10 analysts; and approximately 17% of observations have more than 10 analysts. The maximum number of analysts following a firm in our sample is 54. This is generally consistent with our previous argument that it is difficult to attract analysts for foreign firms issuing securities on US exchanges.

Table 4 summarizes the results of the univariate analysis. The mean analyst coverage is 7.83 for the group in which WorkUS equals 1 and 3.85 for the group in which WorkUS equals 0. The *t*-test results show that the

---

[2] If we set the missing institutional holdings data to zero, the results for institutional ownership remain consistent but the result for the number of institutional investors disappears.

Table 3
Detailed summary of dependent variables.

	Freq.	Percent
(a) Detailed summary of the number of institutional investors		
#InstOwners(unlogged)		
1–10	186	25.98
11–20	129	18.02
21–30	93	12.99
31–40	74	10.34
41–50	51	7.12
51–100	107	14.94
101–200	67	9.36
201–max	9	1.25
Total	716	100
(b) Detailed summary of the percentage of institutional holdings		
%InstHolding (unlogged)		
Min–5%	259	36.17
5–10%	123	17.18
10–20%	140	19.55
20–30%	81	11.31
30–40%	36	5.03
40–60%	45	6.28
60–80%	26	3.63
80–100%	6	0.84
Total	716	100
(c) Detailed summary of the number of analysts		
#Analysts(unlogged)		
0	294	32.85
1–2	160	17.88
3–5	168	18.77
6–10	120	13.41
11–20	90	10.06
21–max	63	7.04
Total	895	100

Table 4
Univariate analysis.

	(1) WorkUS=1		(2) WorkUS=0		(3)=(2)−(1)
	Obs.	Mean	Obs.	Mean	*t*-Statistics
#Analysts(unlogged)	381	7.83	514	3.85	−7.3943***
#InstOwners(unlogged)	311	48.93	405	34.59	−4.0107***
%InstHolding (unlogged)	311	21.75	405	10.62	−8.5165***
	(1) CEOworkUS=1		(2) CEOworkUS=0		(3)=(2)−(1)
	Obs.	Mean	Obs.	Mean	*t*-Statistics
#Analysts(unlogged)	146	9.72	749	4.73	−6.8950***
#InstOwners(unlogged)	118	63.24	598	36.40	−5.6805****
%InstHolding (unlogged)	118	29.27	598	12.73	−9.5909***
	(1) CFOworkUS=1		(2) CFOworkUS=0		(3)=(2)−(1)
	Obs.	Mean	Obs.	Mean	*t*-Statistics
#Analysts(unlogged)	326	7.53	569	4.41	−5.5823***
#InstOwners(unlogged)	263	48.19	453	36.54	−3.1548***
%InstHolding (unlogged)	263	20.37	453	12.61	−5.6245***

differences between the means of the two groups are significant for analyst coverage and institutional owner-ship. The results are similar if we replace WorkUS with CEOworkUS or CFOworkUS.

4. Research design and main results

We examine the effect of top executives' US experience on analyst following and institutional investors using the following models:

$$\#\text{Analysts} = \beta_0 + \beta_1 \text{ WorkUS} + \beta_2 \text{ WorkOverseas} + \beta \text{ Controls} + \text{Year} + \text{Industry} + \text{Exchange} + \varepsilon.$$

$$\#\text{InstOwners} = \beta_0 + \beta_1 \text{ WorkUS} + \beta_2 \text{ WorkOverseas} + \beta \text{ Controls} + \text{Year} + \text{Industry} + \text{Exchange} + \varepsilon.$$

$$\%\text{InstHolding} = \beta_0 + \beta_1 \text{ WorkUS} + \beta_2 \text{ WorkOverseas} + \beta \text{ Controls} + \text{Year} + \text{Industry} + \text{Exchange} + \varepsilon.$$

We control for top executives' other overseas experience to ensure the results are cleanly measuring the effect of US experience. As the literature documents that corporate governance can affect analyst coverage and institutional investor following, we use three proxies for corporate governance and control for them in the regressions. We first control for listing method (RM) to capture the quality of corporate governance. Chen et al. (2013) suggest that for Chinese firms that have low bonding incentives and poor governance, the reverse merger process provides an opportunity to access the US capital markets. We also control for common corporate governance features: board characteristics and ownership structure. Our second proxy for corporate governance is board independence. Corporate boards of directors mon-itor top executives and make decisions about top managers' compensation and retention. Board indepen-dence has been widely used as a proxy of the board's aggressive ability to curb opportunistic managerial behavior in the presence of agency problems (e.g., Klein, 2002; Ahmed and Duellman, 2007). Our third proxy for corporate governance is the existence of foreign institutional blockholders. We use an indicator of whether the firm has one or more foreign block institutional investors (non-Chinese institutional own-ers with 5% ownership or higher) to capture the quality of corporate governance, following previous studies that suggest that institutional investors play an important monitoring role in reducing agency costs.

We also include the following control variables: (1) InsiderOwn, which captures the holdings by the officers and directors; (2) BoardSize, which measures the size of the board; (3) Founder, which captures whether the CEO is the founder of the firm; (4) and Size, which equals the log of total assets, and several financial indi-cators including the book-to-market ratio, return on assets, and leverage.

The main results are shown in Table 5. We report robust *t*-statistics based on standard errors adjusted for clustering at the firm level. Column 1 shows that the coefficient of WorkUS is positive and significant at the 0.05 significance level, which means that top executives' work experience in the US has a significant positive effect on analyst following. The coefficient of WorkOverseas is insignificant, which suggests that executives' work experience in other countries or regions does not benefit the firms by attracting analysts in the US market. Consistent with our expectation, the coefficients of Blockholder, Independence, Foun-der, Size, and ROA are positive and significant. Columns 2 and 3 show that the coefficients of WorkUS are positive and significant at the 0.01 significance level, which means that top executives' work experi-ence in the US has a positive effect on both the number of institutional investors and their level of ownership.

Next, to examine whether executives' US work experience dominates the results, we construct two new vari-ables to separately capture CEOs' and CFOs' work experience in the US. Correspondingly, we construct two variables to explicitly capture CEOs' and CFOs' work experience in other countries or regions outside the Chi-nese mainland, but excluding the US. We predict that CFOs' US experience is relatively influential in our research, because CFOs normally take charge of information disclosure and communication with analysts and institutional owners. Table 6 shows that, consistent with our prediction, CFOs' US experience dominates the results.

Table 5
Effect of executives' US experience on analysts and institutional investors.

	(1) #Analysts	(2) #InstOwners	(3) %InstHolding
WorkUS	0.260**	0.300***	0.670***
	(2.314)	(3.423)	(3.734)
WorkOverseas	0.008	−0.041	−0.049
	(0.064)	(−0.492)	(−0.256)
RM	−0.020	0.123	0.273
	(−0.122)	(1.087)	(0.995)
Blockholder	0.369***	0.207***	1.039***
	(3.289)	(3.124)	(5.867)
InsiderOwn	−0.000	−0.004**	−0.004
	(−0.009)	(−2.361)	(−1.084)
Founder	0.367***	0.216**	0.144
	(2.643)	(2.527)	(0.731)
BoardSize	−0.087**	−0.011	−0.166***
	(−2.256)	(−0.391)	(−2.703)
Independence	1.764***	0.813***	1.358**
	(4.202)	(2.800)	(2.260)
Size	0.603***	0.611***	0.434***
	(8.510)	(14.003)	(4.094)
BMR	−0.058***	−0.038***	−0.033*
	(−3.542)	(−4.489)	(−1.919)
ROA	0.879***	0.767**	1.277*
	(2.646)	(2.432)	(1.916)
Lev	−0.219	−0.222	−0.302
	(−0.684)	(−1.012)	(−0.496)
Constant	−3.571***	−1.840***	−9.671***
	(−7.048)	(−3.263)	(−7.408)
Year	Controlled	Controlled	Controlled
Industry	Controlled	Controlled	Controlled
Exchange	Controlled	Controlled	Controlled
Observations	895	716	716
F	15.742	23.242	10.368
r^2_p	0.236	–	–
r^2_a	–	0.689	0.348

Note: This table reports the OLS regression results for the effect of top executives' US experience on institutional investors (columns 2 and 3) and the Tobit regression results for the effect of top executives' US experience on analyst following (column 1). All of the variables are defined in Appendix A. Coefficient estimates are provided in the top row and p-values in the bottom row. *, ** and *** indicate significance at the 10%, 5% and 1% levels (two-tailed test), respectively.

5. Robustness checks and additional tests

5.1. Controlling for discretionary accruals

We further control for discretionary accruals to capture earnings quality in the robustness analysis and the results remain unchanged.[3] We use the modified Jones model to calculate discretionary accruals. We do not control for discretionary accrual based earnings quality in the main test to avoid further sample reduction.

---

[3] The result is untabulated. Please request it from the authors if needed.

Table 6
Effect of CFOs' US experience on analysts and institutional investors.

	(1) #Analysts	(2) #InstOwners	(3) %InstHolding
CFOworkUS	0.199*	0.268***	0.589***
	(1.867)	(3.521)	(3.902)
CFOWorkOverseas	0.026	−0.093	−0.214
	(0.213)	(−1.135)	(−1.146)
CEOworkUS	0.144	0.143	0.240
	(0.915)	(1.104)	(1.025)
CEOWorkOverseas	0.053	0.126	0.390
	(0.271)	(0.883)	(1.134)
RM	−0.005	0.136	0.300
	(−0.028)	(1.160)	(1.065)
Blockholder	0.360***	0.202***	1.032***
	(3.176)	(2.948)	(5.801)
InsiderOwn	0.000	−0.004**	−0.004
	(0.098)	(−2.231)	(−0.922)
Founder	0.369***	0.218**	0.146
	(2.646)	(2.569)	(0.757)
BoardSize	−0.084**	−0.010	−0.164***
	(−2.153)	(−0.359)	(−2.725)
Independence	1.743***	0.839***	1.462**
	(4.167)	(2.920)	(2.535)
Size	0.601***	0.610***	0.433***
	(8.519)	(14.541)	(4.214)
BMR	−0.058***	−0.038***	−0.034*
	(−3.538)	(−4.473)	(−1.928)
ROA	0.911***	0.791**	1.325**
	(2.750)	(2.444)	(1.977)
Lev	−0.226	−0.279	−0.479
	(−0.713)	(−1.289)	(−0.794)
Constant	−3.571***	−1.858***	−9.737***
	(−7.077)	(−3.396)	(−7.685)
Year	Controlled	Controlled	Controlled
Industry	Controlled	Controlled	Controlled
Exchange	Controlled	Controlled	Controlled
Observations	895	716	716
F	14.985	25.449	10.513
r^2_p	0.236	–	–
r^2_a	–	0.690	0.350

Note: This table reports the OLS regression results for the effect of CFOs' US experience on institutional investors (columns 2 and 3) and the Tobit regression results for the effect of CFOs' US experience on analyst following (column 1). All of the variables are defined in Appendix A. Coefficient estimates are provided in the top row and p-values in the bottom row. *, ** and *** indicate significance at the 10%, 5% and 1% levels (two-tailed test), respectively.

5.2. Innate ability explanation

So far, we have shown that CFOs with US experience have a positive effect on analyst following and institutional holdings. It could be argued that these benefits may be due to CFOs' exceptional ability, rather than their US experience. To rule out this alternative explanation, we provide some evidence suggesting that US experience may matter, beyond the executives' ability. Most of the CFOs in our sample obtained their undergraduate degrees in China. Following Giannetti et al. (2014), we measure CFO ability using the rankings of their Chinese universities. We sort the universities into top tier, second tier, and third tier. As the results in Table 7 show, the coefficient of CFOworkUS is significantly positive after controlling for university ranking, which suggests that CFOs' US experience matters beyond their innate ability.

Table 7
Alternative explanation: CFOs' innate ability.

	(1) #Analysts	(2) #InstOwners	(3) %InstHolding
CFOworkUS	0.215*	0.358***	0.794***
	(1.696)	(3.690)	(3.630)
CFOWorkOverseas	0.103	−0.005	−0.326
	(0.593)	(−0.049)	(−1.350)
CEOworkUS	0.236	0.006	−0.229
	(1.065)	(0.039)	(−0.960)
CEOWorkOverseas	0.278	0.453***	1.243***
	(0.990)	(3.544)	(4.690)
CFOunivRank	0.201**	0.031	−0.097
	(2.118)	(0.628)	(−0.777)
RM	0.297	0.320**	0.594*
	(1.471)	(2.366)	(1.876)
Blockholder	0.487***	0.227**	1.231***
	(3.264)	(2.609)	(5.237)
InsiderOwn	0.001	−0.004*	−0.005
	(0.383)	(−1.680)	(−0.980)
Founder	0.347**	0.235**	0.130
	(2.098)	(2.069)	(0.518)
BoardSize	−0.090**	−0.042	−0.287***
	(−2.071)	(−1.365)	(−3.630)
Independence	1.324***	0.561	0.409
	(3.200)	(1.465)	(0.520)
Size	0.621***	0.630***	0.536***
	(7.927)	(16.188)	(5.002)
ROA	0.609	0.495	1.336
	(1.471)	(1.438)	(1.479)
Lev	−0.640	−0.698***	−1.169
	(−1.635)	(−2.881)	(−1.532)
Constant	−3.975***	−1.716***	−9.160***
	(−6.724)	(−2.939)	(−7.283)
Year	Controlled	Controlled	Controlled
Industry	Controlled	Controlled	Controlled
Exchange	Controlled	Controlled	Controlled
Observations	577	451	451
F	11.887	29.799	12.876
r^2_p	0.226	–	–
r^2_a	–	0.718	0.438

Note: This table reports the results after controlling for CFO's innate ability. All of the variables are defined in Appendix A. Coefficient estimates are provided in the top row and *p*-values in the bottom row. *, ** and *** indicate significance at the 10%, 5% and 1% levels (two-tailed test), respectively.

5.3. Self-selection problem

The choice of hiring a CFO with US experience may be determined by corporate governance, the existence of foreign large blockholders, and the CEO's characteristics. We use the Heckman two-stage method to control for this potential self-selection issue. In the first stage, we design a model to examine the possibility of a firm hiring a CFO with US experience. We use CFOpreIPO as an instrumental variable. Column 4 of Table 8 shows the results of the first stage. The results are consistent with the previous main results after controlling for lambda in the second-stage regressions (Columns 1–3 of Table 8).

Table 8
Results of the Heckman two-stage regression.

	Stage two			Stage one
	#Analysts	#InstOwners	%InstHolding	CFOworkUS
CFOworkUS	1.235**	0.886**	1.216*	
	(2.316)	(2.070)	(1.841)	
CFOWorkOverseas	0.042	−0.084	−0.180	
	(0.349)	(−1.011)	(−0.945)	
Lambda	−0.633*	−0.384	−0.394	
	(−1.960)	(−1.497)	(−0.960)	
RM	−0.150	0.136	0.279	−0.102
	(−0.992)	(1.210)	(1.031)	(−0.414)
Blockholder	0.436***	0.251***	1.119***	−0.147
	(3.784)	(3.836)	(6.191)	(−0.987)
InsiderOwn	0.001	−0.004**	−0.005	0.001
	(0.302)	(−2.305)	(−1.096)	(0.160)
Founder	0.408***	0.222***	0.147	0.010
	(2.923)	(2.622)	(0.753)	(0.057)
BoardSize	−0.070*	−0.011	−0.163***	
	(−1.758)	(−0.407)	(−2.656)	
Independence	1.583***	0.827***	1.485**	−0.158
	(4.011)	(2.746)	(2.450)	(−0.357)
BMR	−0.050***	−0.033***	−0.029	−0.037*
	(−2.844)	(−3.931)	(−1.603)	(−1.931)
Size	0.632***	0.621***	0.454***	−0.041
	(9.261)	(14.421)	(4.330)	(−0.544)
ROA	0.929***	0.775**	1.298*	0.138
	(2.795)	(2.427)	(1.961)	(0.403)
Lev	−0.136	−0.258	−0.450	
	(−0.425)	(−1.178)	(−0.749)	
CEOworkUS				0.549**
				(2.379)
CEOWorkOverseas				−0.199
				(−0.712)
CFOpreIPO				−0.302*
				(−1.889)
Constant	−3.944***	−2.007***	−9.977***	0.091
	(−6.901)	(−3.550)	(−7.592)	(0.145)
Year	Controlled	Controlled	Controlled	Controlled
Industry	Controlled	Controlled	Controlled	Controlled
Exchange	Controlled	Controlled	Controlled	Controlled
Observations	895	716	716	895
F	16.868	25.715	10.478	74.99
r^2_p	0.231	–	–	0.133
r^2_a	–	0.690	0.345	–

Note: This table reports the Heckman two-stage results. All of the variables are defined in Appendix A. Coefficient estimates are provided in the top row and p-values in the bottom row. *, ** and *** indicate significance at the 10%, 5% and 1% levels (two-tailed test), respectively.

5.4. Global investment banking experience

We test whether executives' global investment banking experience has an additional effect on the number of analysts and institutional investors following the firm. We find that CFOs' global investment bank experience has an additional positive effect on analyst coverage.[4]

---

[4] The results are untabulated. Please request them from the authors if needed.

Table 9
Effect of CFOs' US experience on conference call and management forecast frequency.

	(1) Prob(Call)	(2) Prob(MF)	(3) Call	(4) MF
CFOworkUS	1.213***	0.814***	0.620***	1.248***
	(3.769)	(3.439)	(3.694)	(3.608)
CFOWorkOverseas	−0.015	−0.287	0.175	−0.321
	(−0.043)	(−1.037)	(0.899)	(−0.859)
CEOworkUS	0.358	−0.509	−0.123	−0.719
	(0.656)	(−1.336)	(−0.668)	(−1.608)
CEOWorkOverseas	0.475	1.090**	0.416*	1.710***
	(0.688)	(2.232)	(1.857)	(3.173)
RM	−0.108	−0.043	−0.345	−0.364
	(−0.245)	(−0.136)	(−1.192)	(−0.828)
Founder	1.303***	0.575**	0.836***	1.225***
	(4.381)	(2.219)	(3.844)	(3.369)
Blockholder	1.130***	0.098	0.411**	0.162
	(3.413)	(0.388)	(2.409)	(0.485)
InsiderOwn	0.003	−0.016***	−0.004	−0.026***
	(0.351)	(−2.938)	(−0.883)	(−3.078)
Independence	1.459	1.161	1.428**	1.543
	(1.610)	(1.563)	(2.290)	(1.440)
Size	0.253	0.104	0.218*	0.279
	(1.627)	(0.845)	(1.819)	(1.460)
ROA	0.340	1.653**	0.659	2.304**
	(0.522)	(2.209)	(1.506)	(2.143)
Lev	−0.477	−0.379	0.013	0.233
	(−0.699)	(−0.637)	(0.027)	(0.249)
BMR	−0.012	−0.067*	−0.026	−0.083*
	(−1.014)	(−1.952)	(−1.583)	(−1.887)
Constant	−1.365	0.656	0.294	0.499
	(−1.118)	(0.681)	(0.369)	(0.343)
Industry	Controlled	Controlled	Controlled	Controlled
Year	Controlled	Controlled	Controlled	Controlled
Observations	895	895	895	895
F			9.798	8.100
chi^2	151.6	124.2		
r^2_p	0.299	0.203	0.115	0.0991

Note: This table reports the logit and OLS regression results for the effect of CFOs' US experience on conference calls (columns 1 and 3) and management earnings forecasts (columns 2 and 4). All of the variables are defined in Appendix A. Coefficient estimates are provided in the top row and p-values in the bottom row. *, ** and *** indicate significance at the 10%, 5% and 1% levels (two-tailed test), respectively.

5.5. Alternative measure of US background

We also use another measure to capture executives' US background. We extract the executives' educational background from their biographies and construct the CEOeduUS and CFOeduUS variables to indicate whether they were educated in the US. The results are similar to the main results.[5]

5.6. Other top executives' US background

Generally, the board secretary is in charge of investor relations in Chinese listed firms. It is possible that US-listed Chinese firms follow this custom and the board secretary functions as an IR specialist to communicate with investors and analysts. Therefore, we also test whether the board secretary's US experience has

---

[5] The results are untabulated. Please request them from the authors if needed.

an effect on the number of analysts and institutional investors following the firm. However, the results show no support for this effect, which implies that CFOs play a critical role in communicating with analysts and investors in US-listed Chinese firms.

5.7. Are CFOs with US experience more likely to hold conference calls?

There is evidence to suggest that CFOs have a significant influence on companies' financial reporting (e.g., Geiger and North, 2006; Ge et al., 2010). We argue that CFOs with US experience may act more in alignment with US norms in disclosure practices, such as holding conference calls, and thus may attract more US institutional investors and analysts (e.g., Kimbrough, 2005). Consistent with our expectation, we find that (1) firms with US experienced CFOs are more likely to hold conference calls, and (2) the frequency of conference calls is significantly higher for firms with US-experienced CFOs. Columns 1 and 3 of Table 9 report the results, which provide direct evidence of how CFOs with US experience are able to help US-listed Chinese firms to attract more US investors and analysts.

5.8. Do CFOs with US experience voluntarily disclose more management forecasts?

Given that releasing management earnings forecasts is normal practice in the US, CFOs with US experience may act more similarly to domestic US managers in terms of their disclosure activities, such as voluntarily disclosing earnings forecasts, and thus attract more US institutional investors and analysts. Consistent with our argument, we find that (1) firms with US-experienced CFOs are more likely to voluntarily issue management forecasts, and (2) the frequency of management forecasts is significantly higher for firms with US-experienced CFOs. Columns 2 and 4 of Table 9 report the results, which provide direct evidence of how CFOs with US experience are able to help US-listed Chinese firms to attract more US investors and analysts.

6. Conclusion

We use US-listed Chinese firms as our research sample and find that firms that hire top executives (i.e., CEOs or CFOs) with work experience in the US or educational qualifications from the US attract more analysts and institutional investors. Further, we find that CFOs' US experience dominates the results. To eliminate the innate ability argument, we control for CFO innate ability by following Giannetti et al. (2014) and the results remain consistent. We use the two-stage Heckman method to eliminate selection bias and the results again remain consistent. Nevertheless, we acknowledge that we cannot totally resolve the firm–executive matching endogeneity problem.

As supporting evidence, we find that firms with US-experienced executives tend to hold more conference calls and voluntarily issue more management forecasts. This complements previous studies documenting the effect of information disclosure on analysts' and institutional investors' activities by looking beyond the outcomes and identifying the core management drivers. Our results suggest that foreign firms attempt to lower investors' and analysts' information disadvantage or psychological distance by hiring top executives with US experience.

Our findings provide a deeper understanding of the mechanisms that facilitate US-listed Chinese firms to obtain international capital or resources and the results may be generalizable to other foreign firms cross-listed on US exchanges.

Appendix A. Variable definitions

Variable	Definition	Data source
WorkUS	Equals 1 if the CEO or CFO has work experience in the US, zero otherwise	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
WorkOverseas	Equals 1 if the CEO or CFO has work experience overseas (including Hong Kong, Taiwan and other foreign countries)	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CEOworkUS	Equals 1 if the CEO has work experience in the US, 0 otherwise	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CFOworkUS	Equals 1 if the CFO has work experience in the US, 0 otherwise	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
RM	Equals 1 if the company listed on the US exchange by reverse merger	List of Chinese RM firms obtained from the WIND database and the website of SINA Finance. Double checked by checking the history and headquarters of the company
Founder	Equals 1 if the CEO is also the (co-) founder of the firm	Hand collected from annual reports or proxy statements. Double checked using information from the Internet
Blockholder	Equals 1 if the firm has a foreign blockholder with a shareholding larger than 5%	Hand collected from annual reports and proxy statements
InsiderOwn	The shareholding percentage of insiders (i.e., executives and board members)	Hand collected from annual reports or proxy statements
CEOWorkOverseas	Equals 1 if the CEO has work experience overseas (including Hong Kong, Taiwan and other foreign countries)	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CFOWorkOverseas	Equals 1 if the CFO has work experience overseas (including Hong Kong, Taiwan and other foreign countries)	Hand collected from annual reports or proxy statements. Double checked using the information from the firm's website
CEOeduUS	Equals 1 if the CEO was educated in the US, 0 otherwise	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CFOeduUS	Equals 1 if the CFO was educated in the US, 0 otherwise	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CEOeduOverseas	Equals 1 if the CEO was educated overseas (including Hong Kong, Taiwan and other foreign countries)	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
CFOeduOverseas	Equals 1 if the CFO was educated overseas (including Hong Kong, Taiwan and other foreign countries)	Hand collected from annual reports or proxy statements. Double checked using information from the firm's website
#Analysts	Ln(1 + #analysts)	Collected from IBES. The number of analysts is zero if the data are missing in IBES

Appendix A (*continued*)

Variable	Definition	Data source
#InstOwners	Ln(#InstOwners)	Collected from the TR 13f dataset
%InstHolding	Ln(100 * Percentage of institutional ownership)	Collected from the TR 13f dataset
Size	Ln(total assets)	Collected from Compustat
ROA	Net income/total assets	Collected from Compustat
Lev	Total liabilities/total assets	Collected from Compustat
BMR	Total assets/market cap	Collected from Compustat
BoardSize	# of board members	Hand collected from annual reports and proxy statements
Independence	# of independent board member/# of board members	Hand collected from annual reports and proxy statements
CEOpreIPO	Equals 1 if the CEO joined the firm before public listing, 0 otherwise	Hand collected from annual reports and proxy statements
CFOpreIPO	Equals 1 if the CFO joined the firm before public listing, 0 otherwise	Hand collected from annual reports and proxy statements

References

Ahmed, A., Duellman, S., 2007. Accounting conservatism and board of director characteristics: an empirical analysis. J. Acc. Econ. 43, 411–437.

Allen, F., Qian, J., Qian, M., 2005. Law, finance, and economic growth in China. J. Financ. Econ. 77, 57–116.

Bamber, L., Jiang, J., Wang, I., 2010. What's my style? The influence of top managers and their personal backgrounds on voluntary corporate financial disclosure. Acc. Rev. 85, 1131–1162.

Beatty, R., Lu, H., Luo, W., 2013. The market for lemon: a study of quality uncertainty and the market mechanism for Chinese firms listed in the US. Working paper.

Bertrand, M., Schoar, A., 2003. Managing with style: the effect of managers on firm policies. Quart. J. Econ. 68, 1169–1208.

Chen, K.C., Cheng, Q. Lin, Y.C., Lin, Y.C., Xiao, X., 2013. Financial reporting quality of Chinese reverse merger firms: The reverse merger effect or the China Effect? Working paper. Singapore Management University.

Cronqvist, H., Makhija, A.K., Yonker, S.E., 2012. Behavioral consistency in corporate finance. CEO personal and corporate leverage. J. Financ. Econ. 103, 20–40.

Dyreng, S., Hanlon, M., Maydew, E., 2010. The effect of executives on corporate tax avoidance. Acc. Rev. 85, 1163–1189.

Ge, W., Matsumoto, D., Zhang, J., 2010. Do CFOs have styles of their own? An empirical investigation of the effect of individual CFOs on financial reporting practices. Working paper. University of Washington.

Geiger, M.A., North, D.S., 2006. Does hiring a new CFO change things? An investigation of changes in discretionary accruals. Acc. Rev. 81 (4), 781–809.

Giannetti, M., Liao, G., Yu, X.Y., 2014. The brain of corporate boards: evidence from China. J. Fin. 70 (4), 1629–1682.

Grinblatt, M., Keloharju, M., 2001. How distance, language and culture influence stockholdings and trades. J. Fin. 56 (3), 1053–1073.

Hambrick, D.C., 2007. Upper echelons theory: an update. Acad. Manag. Rev. 32 (2), 334–343.

Hambrick, D.C., Finkelstein, S., 1987. Managerial discretion: a bridge between polar views of organizational outcomes. Res. Org. Behav. 9, 369–406.

Kimbrough, M., 2005. The effect of conference calls on analyst and market under reaction to earnings announcements. Acc. Rev. 80 (1), 189–219.

Klein, A., 2002. Audit committee, board of director characteristics, and earnings management. J. Acc. Econ. 33 (3), 375–400.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.W., 1998. Law and finance. J. Polit. Econ. 106 (6), 1113–1155.

Lundholm, R., Rogo, R., Zhang, J.L., 2014. Restoring the tower of Babel: how foreign firms communicate with US investors. Acc. Rev. 89 (4), 1453–1485.

Malmendier, U., Tate, G., Yan, J., 2011. Overconfidence and early-life experiences: the effect of managerial traits on corporate financial policies. J. Fin. 66 (5), 1687–1733.