

CEO FOREIGN EXPERIENCE AND FIRM PERFORMANCE: DOES CEO TENURE MATTER?

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Abstract - The study examines the impact of CEO foreign experience on firm performance and the effect of CEO tenure on this relation in the Vietnamese market. Using a unique, hand-collected dataset of non-financial firms listed on the Ho Chi Minh stock exchange (HOSE) over the period from 2013 to 2021, we find that firms led by CEOs with overseas experience tend to have higher performance as compared to their counterparts. In addition, CEO tenure strengthens the positive relationship between managerial foreign experience and firm performance. The findings indicate the importance of foreign experienced CEOs in fostering firm performance, especially in emerging markets like Vietnam.

Key words - CEO foreign experience; firm performance; Vietnam

1. Introduction

The Upper Echelon Theory states that CEOs' or top executives' characteristics highly affect their strategic decisions and, in turn, influence corporate outcomes [1]. A wide range of CEO attributes has since been explored in the literature such as CEO gender [2], CEO age, CEO-chairperson duality [3, 4], CEO overconfidence [5, 6], CEO educational background [7, 8], CEO financial experience [9, 10], and CEO military experience [11, 12]. Along with the rapid development of economic globalization all over the world, CEO foreign experience has also received great attention from researchers. A growing body of literature documents that the foreign experience of CEOs plays an important role in corporate outcomes, especially in emerging countries [13, 14, 15, 16].

While prior research finds that CEO foreign experience positively and significantly affects corporate export orientation and export performance [13], corporate innovation [15], investment efficiency [17], corporate social responsibility [16], the findings for the impact of CEO foreign experience on firm performance are mixed. In fact, related studies show that CEOs with foreign experience may influence firm performance in opposite directions. On the one hand, these overseas-returned top executives are often expected to improve firm performance with their advanced knowledge, managerial skills, good reputation, and foreign network [13, 14, 18]. On the other hand, these returnees may struggle with various constraints including the lack of local resources (e.g., political connections, network ties) and the maladjustment to the domestic political economy and corporate environment when returning to the home countries [19, 20, 21]. These disadvantages could offset the benefit of returnee CEOs and consequently lead to underperformance in firms with foreign experienced CEOs.

Vietnam is currently one of the fastest developing markets in the world, but is facing a shortage of high-quality workforce including leadership and management [22]. It is therefore becoming an attractive destination for overseas returnees to explore new job opportunities [23]. Besides, Vietnam is also known as an emerging country [24] with weak legal institutions [25] that might bring barriers to returnees' career development. However, little attention has been paid to the impact of CEO foreign experience on firm outcomes in Vietnam. Our paper is the first paper to explore the role of foreign-experienced CEOs in shaping firm performance in this emerging market.

2. Literature review and hypothesis development

The existing body of finance literature presents mixed findings concerning the relationship between a CEO's foreign experience and firm performance. On the one hand, extant studies document that firms led by foreign experienced CEOs tend to have higher firm performance than their counterparts. They argue that directors with overseas experience have highly specialized skills and advanced management experience that are accumulated abroad, and they can transmit the knowledge and corporate governance practices to firms in the home country to enhance firm performance and productivity [13, 18]. In addition, these managers provide connections in foreign markets, which might facilitate international fund-raising activities [14]. They also may help firms to attract skilled employees with similar educational background, which can, in turn, strengthen firm performance [26]. Besides, as overseas returnees have fewer political ties, they may be more motivated to pursue profitability rather than focus on political goals [14]. In fact, Filatotchev et al. [13] find that firms' export orientation and export performance are positively correlated with the presence of managers having foreign experience. Similarly, Giannetti et al. [14] confirm that firm performance increases after foreign experienced directors join corporate boards while investigating the Chinese market. More recently, Zhang and Fu [26] document overseas-returned executives have a positive impact on firm performance, especially in non-state-owned firms, large firms and firms located in eastern China.

On the other hand, prior research shows that returnee CEOs tend to be over-confident, therefore, they are more likely to adopt aggressive corporate strategies as compared to native CEOs [27]. Another disadvantage relates to the lack of local social resources due to their absence from the home country while they are living overseas. When returning to the home country, they might encounter

cultural shock and difficulties in adjusting to underdeveloped institutional environment [19, 20]. These weaknesses could offset the benefit of returnee CEOs and lead to lower performance in firms with foreign experienced CEOs as compared to their counterparts. In fact, Li et al. [19] find that the overseas-returned entrepreneurs underperform local entrepreneurs in the technology ventures. Duan and Hou [27] document that returnee CEOs are associated with lower firm performance.

Based on aforementioned arguments, we develop the following alternative hypotheses related to the impact of CEO foreign experience on firm performance:

H1a: Ceteris paribus, firms led by CEO with foreign experience display higher performance than their counterparts.

H1b: Ceteris paribus, firms led by CEO with foreign experience display lower performance than their counterparts.

Overseas-returned CEOs' tenure can help improve their weakness related to local connections and cultural adjustment. We argue that the more the overseas experienced CEOs stays in their position, the more they obtain insights about the firm structure, culture, and resources, and adapt to the political and corporate environment in the home country. In addition, as longer-tenured CEOs have more information on their employee needs and constraints, they are more likely to enhance employee self-efficacy and empower the workforce [28, 29], boosting employee relations with the firm, and thereby helping the firm achieve higher performance [30]. As such, we postulate the following hypothesis about the moderating role of CEO tenure:

H2: CEO tenure enhances (weakens) the positive (negative) effect of managerial foreign experience on firm performance.

3. Data and method

3.1. Data

Our sample consists of 322 non-financial firms listed on the Ho Chi Minh stock exchange from 2013 to 2021. We hand collect the information on CEO foreign experience and CEO tenure from the annual management reports submitted to the State Securities Commission by firms. We obtain corresponding financial data from FiiinPro, which is the leading financial data provider in Vietnam. Our final sample contains 2,277 observations in total.

3.2. Method

We follow prior studies in the corporate finance literature (e.g., Davies et al. [31], Coles et al. [32]) to use Tobin's Q to represent the firm performance. Tobin's Q is a market-based measure of performance, which is calculated by using the market value of equity plus the book value of debt, scaled by the book value of total assets. The advantage of market-based performance measures is that they incorporate all relevant information, and therefore, unlike accounting measures, they are not

limited to a single aspect of firm performance [33], and not subjected to managerial manipulation and distortions [34].

To examine the impact of CEO foreign experience on firm performance, we estimate the following regression model:

$$Performance_{i,t} = \beta_0 + \beta_1 Foreign_{Exp}_{i,t} + \sum \theta_j (Control_j)_{i,t} + \vartheta_{ind} + \gamma_t + \zeta_{i,t} \quad (1)$$

Where the dependent variable, $Performance_{i,t}$, refers to Tobin's Q for firm i in year t . $Foreign_{Exp}$ is a dummy variable, which takes the value of one if the CEO of the firm has foreign experience, and zero otherwise. $Control_{i,t}$ is a vector of firm-level controls that include firm size (LogTA), capital expenditures (LogCAPEX), cash holding (Cash), and leverage (LT leverage). We also include industry fixed effects (ϑ_{ind}) and year fixed effects (γ_t) in the model to control for unobserved characteristics across industries and time trends in the performance variable. $\zeta_{i,t}$ is the error term. To eliminate extreme values, we winsorise all continuous variables at the 1% and 99% levels.

We define CEO tenure ($CEO_Tenure_{i,t}$) as the number of years in the CEO position at the current firm. To investigate whether CEO tenure influences the relation between CEO foreign experience and firm performance, we extend equation (1) by incorporating the interaction between CEO overseas experience and CEO tenure. CEO tenure is also separately included in the model to control for its direct impact on firm performance. The new model is as follows:

$$Performance_{i,t} = \beta_0 + \beta_1 Foreign_{Exp}_{i,t} + \beta_2 Foreign_{Exp}_{i,t} \times CEO_Tenure_{i,t} + \beta_3 CEO_Tenure_{i,t} + \sum \theta_j (Control_j)_{i,t} + \gamma_s + \delta_t + \zeta_{i,t} \quad (2)$$

The impact of CEO tenure on the CEO foreign experience-firm performance relation would be revealed in the coefficient of the $Foreign_{Exp}_{i,t} \times CEO_Tenure_{i,t}$ variable.

The definition of all variables are provided in Table 1.

Table 1. Definition of variables

Variable	Description
Performance	Tobin's Q ratio, calculated as the sum of the market value of equity and the book value of debt, divided by the book value of total assets
Foreign_Exp	Dummy variable, which takes the value of 1 if the firm's CEO has foreign experience, and 0 otherwise
CEO_tenure	Number of years in the CEO position at the current firm
Cash	Cash divided by total assets
LT leverage	Long-term leverage, calculated as the ratio of long-term debt to total assets
LogCapex	Natural logarithm of firm's capital expenditures
LogTA	Natural logarithm of firm's total assets

4. Results and Discussion

4.1. Descriptive statistics

Table 2 summarizes the descriptive statistics of the data sample in our analysis. The mean value of Foreign_Exp is 0.11, indicating that only 11% of firms in our sample are led by CEOs with foreign experience. An average firm has a Tobin'Q of 0.93. Table 3 shows the correlation matrix of variables used in our research. CEO foreign experience is positively correlated with Tobin's Q. Besides, no correlation between any two variables is higher than 0.8, mitigating the concern about multi-collinearity.

Table 2. Summary statistics

Variable	N	Mean	Std. Dev.	Min	Max
Tobin_Q	2296	0.91	0.55	0.15	3.56
Foreign_Exp	2296	0.11	0.31	0	1
CEO_Tenure	2296	5.55	5.30	0	29
Cash	2295	0.07	0.08	0.00015	0.70
LT Leverage	2286	0.09	0.12	0	0.68
LogCapex	2221	24.33	2.28	14.41	31.64
LogTA	2296	28.32	1.35	25.50	33.69

Table 3. Correlation matrix

Variable	Tobin_Q	Foreign_Exp	CEO_Tenure	Cash	LT Leverage	LogCapex
Tobin_Q	1					
Foreign_Exp	0.12	1				
CEO_Tenure	0.03	0.05	1			
Cash	0.16	0.09	-0.02	1		
LT Leverage	-0.01	-0.05	-0.08	-0.13	1	
LogCapex	0.27	0.1	-0.04	0.11	0.29	1
LogTA	0.19	0.15	0.01	0.02	0.3	0.63

4.2. CEO foreign experience and firm performance

Table 4 reports the results related to our estimation of equation (1). We present the results without firm characteristic controls in Column (1) and for the full model in Column (2). We find that the estimated coefficients are significantly positive at the 1% level, indicating that CEOs with foreign experience are associated with higher firm performance. The results support the notion that overseas experienced CEOs may benefit firms by bringing advanced knowledge, corporate governance practices, and international connections. Our finding is in line with those of Giannetti et al. [14] and Zhang and Fu [26], and confirms that CEOs with overseas experience can improve firm performance in emerging markets.

We perform additional tests to validate the robustness of our finding and report the results in Table 5. More specifically, to address the potential problems of endogeneity and reverse causality in the regression model (e.g., firms having high performance are more likely to hire overseas returnees as CEOs), we employ the lagged one-year foreign experience variable instead of the contemporaneous one (Column (1)). Besides, to eliminate the possibility that the results might be driven by the impact of the Covid-19 pandemic, we separately rerun Model (1) for sub-samples with the normal period (from 2013 to 2019) and the happening of Covid-19 period (from 2020 to 2021). Results are respectively reported in Columns (2) and (3).

Table 4. CEO foreign experience and firm performance

Variable	(1)	(2)
Intercept	1.31*** (28.05)	-0.64** (-2.25)
Foreign_Exp	0.21*** (4.72)	0.13*** (3.23)
Cash		0.86*** (5.33)
LT Leverage		-0.22** (-2.39)
LogCapex		0.05*** (8.54)
LogTA		0.03** (2.24)
R ² (%)	16.28	22.76
N	2,296	2,210
Industry and year fixed effects	Yes	Yes

T-statistics are in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

Table 5. Robustness checks

Variable	With one-year lagged Foreign_Exp	Pre-COVID-19	COVID-19
	(1)	(2)	(3)
Intercept	-0.69** (-2.24)	-0.83 (-1.59)	-0.85** (-2.50)
Foreign_Exp	0.11*** (2.63)	0.23** (2.46)	0.11** (2.32)
Cash	0.75*** (4.17)	0.61 (1.17)	0.93*** (5.63)
LT Leverage	-0.21** (-2.11)	-0.16 (-0.89)	-0.21** (-2.01)
LogCapex	0.05*** (7.80)	0.03*** (2.66)	0.05*** (8.38)
LogTA	0.03** (2.34)	0.05* (1.91)	0.02 (1.23)
R ² (%)	23.08	22.10	22.55
N	1,903	547	1,663
Industry and year fixed effects	Yes	Yes	Yes

T-statistics are in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

We find that the results remain robust when we use one-year lagged Foreign Exp as independent variable and in the sub-samples. The positive association between CEO overseas-experience and firm performance is still statistically significant at the 1% level in Column (1), and at the 5% level in Columns (2) and (3).

4.3. Does CEO tenure matter?

We test whether CEO tenure affects the relation between managerial foreign experience and firm performance. The result for the moderating role of CEO tenure is reported in Table 6.

Consistent with our conjecture, we find that our variable of interest, which is the interaction term between Foreign_Exp and CEO_Tenure, has positive and significant coefficient. The result implies that CEO tenure enhances the positive relation between overseas experience

and firm performance. The more the overseas experienced CEOs stays in their position, the more they adapt to the local environment and build local connections, and thereby helping firm achieve higher performance.

Table 6. Effect of CEO tenure on the managerial foreign experience - firm performance relation

Variable	(1)
Intercept	-0.58** (-2.09)
Foreign_Exp	-0.05 (-0.70)
Foreign_Exp × CEO_Tenure	0.03*** (3.10)
CEO_Tenure	-0.003 (-1.34)
Cash	0.91*** (5.77)
LT Leverage	-0.20** (-2.23)
LogCapex	0.05*** (8.51)
LogTA	0.02** (2.14)
R ² (%)	23.91
N	2,210
Industry and year fixed effects	Yes

*T-statistics are in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.*

5. Conclusion and implication

This research investigates whether CEO foreign This research investigates whether CEO foreign experience affects firm performance, and the effect of CEO tenure on this relation in the Vietnamese market. Employing a unique, hand-collected dataset for 322 non-financial firms listed on the Ho Chi Minh stock exchange over the period from 2013 to 2021, we find higher firm performance in firms with overseas-returned CEOs. Besides, the positive influence of managerial foreign experience on firm performance is more pronounced when CEOs have longer tenure. Our findings enrich the literature on the role of CEO foreign experience [14, 26], and confirm that CEOs with overseas experience can improve firm performance in emerging markets.

Our study also has important policy and managerial implications. First, the government should provide attractive platforms to encourage high skilled return migration, since these returnee talents would help to improve firms' performance and promote the national economy. Appropriate policies are also needed for overseas-returned executives to rapidly adapt to the local environment. Second, the firms should boldly employ CEOs with overseas experience when appointing top executives, which will provide stronger support for the firm development. Third, CEOs with longer tenure can be known as those with a better understanding about firms, and they may have more accurate decisions, which create

more effective firm performance.

This study is subject to several caveats. First, due to data limitations, we are not able to control for the impact of other personal characteristics of the CEO and characteristics of the board on firm performance, which might potentially lead to biased research results. Second, additional robustness checks are needed to fully address the issue of endogeneity in the research. Third, to help to further understand the role played by the overseas-returned executives in Vietnam, future studies should empirically analyze the channels through which the foreign experienced CEOs foster firm performance in this emerging market, which has not be done in this study.

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