Can Executives with Overseas Experience Effectively Improve the Quality of Internal Control in Companies

-- Empirical evidence from Shanghai and Shenzhen A-share listed companies

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Abstract. The report of the 20th Party Congress emphasizes the importance of "attracting talents" and the importance of introducing high-quality talents. The relationship between returnee executives, as the key target of talent introduction, and the significance of internal control in enterprises has been little studied in the literature, and the relationship between the two needs to be further explored as internal control has reached a critical stage in China. This paper selects data of A-share listed companies in Shanghai and Shenzhen from 2011-2021, and explains the relationship between overseas experience of executives and the quality of internal control of enterprises using theories such as branding theory and principal-agent theory, and finds that: overseas experience of executives is significantly and positively related to the quality of internal control of enterprises, and the quality of internal control of enterprises can be improved through two paths: "accelerating the digital transformation of enterprises and suppressing financing constraints". The study found that the overseas experience of executives is significantly and positively related to the quality of internal control, and the quality of internal control can be improved through two paths: "accelerating the digital transformation of enterprises and curbing financing constraints. Further study finds that the effect of returnee executives on internal control quality is more pronounced in state-owned, highly competitive and larger enterprises. This paper enriches the literature on returnee executives and internal control, and inspires companies to pay attention to the overseas experience of executives in order to improve the quality of internal control and respond to the national strategy of "strengthening the country with talents".

Keywords: Executive Overseas Experience; Internal Control; Financing Constraints; Digitalization.

1. Introduction

Since the introduction of the Sarbanes-Oxley Act in the United States, the issue of the quality of internal control of enterprises has attracted widespread attention in the world. Countries have actively introduced corresponding measures to improve the quality of internal control. However, according to the statistics in CSMAR's non-compliance information database, in just two years from 2021 to 2022, more than 1,591 cases of "internal control deficiencies" were exposed in A-share listed companies in Shanghai and Shenzhen, resulting in financial scandals and significant losses and reputational impacts on the companies, which have aroused widespread concern in the society. Therefore, how should enterprises improve the quality of internal control and give full play to its positive role of "balancing interests", "protecting legitimate rights and interests", and "allocating control" (Shang, S. J. 2020)[1] Therefore, it has become an important but long-distance task for every market player in this era.

The "top echelon theory" proposed by Hambrick and Mason in 1984[2] provides a new perspective for the study of internal control: personal background characteristics of managers influence factors of their psychological characteristics, such as beliefs, cognitive levels and values, which in turn influence their behavioral decisions and have an impact on corporate governance and performance. In fact, internal control is a constructive control behavior centered on "people".[3] Therefore, personal characteristics of executives can affect the quality of internal control. Although a few scholars have tested this theory based on the age of executives[4] , military experience[5] and educational level[6] The mechanism of the influence of background characteristics on internal control quality has been examined by a few scholars based on this theory. However, the important trait of "overseas background" has not received sufficient attention. Especially in the past four decades, the trend of internationalization of Chinese companies has become more and more obvious, and executives with overseas experience can promote further internationalization of companies.[7] This should be given more attention.

According to Ministry of Education data, the number of international students returning to China for employment reached 1,049,000 in 2021, the highest in recent years; the 2022 China Returnee Employment Survey Report shows that the number of international students returning to China for employment in 2022 reached another record high, with an 8.6% year-on-year increase. Many returnees have returned to China to inject new knowledge and skills, governance concepts and management experience into enterprises and promote China's economic development. For example, entrepreneurs such as Ma Huateng, Wang Shi and Wang Jianlin have studied or worked abroad, and these experiences have had a profound impact on their way of thinking and management experience, which in turn has an impact on corporate governance. Whether internal control, as one of the key aspects of the corporate governance system, is also influenced by the factors of executives' overseas experience deserves further analysis, and it is of practical significance to explore the intrinsic link between the two.

Therefore, this paper explores the relationship between executives' overseas experience and internal control quality using the data of Shanghai and Shenzhen A-share listed companies from 2011-2021, and finds that: returnee executives can significantly improve the quality of corporate internal control through the two path mechanisms of "accelerating the digital transformation of enterprises" and "suppressing the level of financing constraints The two major path mechanisms to improve the quality of corporate internal control are "accelerating corporate digital transformation" and "curbing the level of financing constraints". Further analysis found that among state-owned, highly competitive and larger enterprises, the promotion effect of executives' overseas experience on internal control quality is more pronounced.

The innovation of this paper includes the following two major aspects: first, the innovation of thinking in the field of internal control research. By reviewing the literature, we find that most scholars currently focus on the explicit "hard factors" such as internal governance structure and external regulation, but neglect to consider the implicit "soft factors" such as executive values and management philosophy. Only a few scholars have paid attention to the impact of managerial characteristics on the quality of internal control, and in the studies conducted, most of the measurements of managerial characteristics were obtained by means of questionnaires, both in the design of the questions and in the distribution of the questionnaires, which were highly subjective and lacked detailed research on the formation of managerial characteristics.[8] This paper aims to use an objective and quantitative approach to examine the formation of managerial traits. This paper wants to use objective and quantitative means to carry out empirical research, expand and enrich the COSO internal control framework, and give a new solution idea to improve the quality of internal control. Second, to enrich the literature related to the overseas experience of executives. The existing literature is mostly based on the perspective of overseas experience of executives on the innovation ability and efficiency of enterprises, but in-depth analysis of the impact of "returnee" executives on the internal governance system of enterprises is scarce.[9] However, there is little literature on the mechanism effect of overseas background of executives on internal control quality. This paper explores the mechanism of overseas experience of executives on internal control quality from multiple perspectives, including "digital transformation" and "financing constraints", and explores the importance of overseas experience on corporate governance. It also explains the advantages of returnee executives and the scenarios in which they can bring their advantages into play from multiple perspectives, providing reference for enterprises to improve their human resources and expanding and extending the theory of top echelon.

2. Literature Review and Theoretical Hypothesis

2.1 Overseas Experience of Executives and Quality of Internal Control

The imprinting theory proposes that the characteristics of the environment at a particular stage of development, whether it is an individual or an organization, will have a great impact on them and will "imprint" them with the characteristics of the environment, and this imprint will have a continuous influence on the judgment and behavior of the rest of their lives[10] (Marquis and Tilcsik, 2013). Based on the imprinting theory, research on executives' personal experiences has been gradually enriched, and it has been suggested that CEOs' "youth experience", "military experience"[11] The literature has considered CEO's "youth experience", "military experience"[12] and "experience of financial crisis" may have a significant impact on the value and the value of managers.[13] It has been suggested that the CEO's "youth experience", "military experience", "experience with financial crisis", etc. may have an impact on the manager's values and preferences, and thus change the company's decision and strategy. From the perspective of this paper, overseas experience is a key personal growth experience for some executives, and their experience abroad is a process of being "branded". Due to geographical differences and the heterogeneity of economic frameworks and cultural systems between countries, executives develop a knowledge base, mindset and behavioral competencies that are appropriate to the overseas environment, and in turn influence corporate policy strategies. In this regard, some scholars have focused on the importance of executives' overseas background, for example, Dai and Liu (2009) find that entrepreneurs with overseas experience have a better sense of export orientation and management expertise, and their performance is better[14] ; Dai Yunhao and Kong Dongmin (2017) find that executives' overseas experience can improve the efficiency of corporate investment and contribute to long-term corporate growth[15] Liu and Jinjun Zhou (2021) find that executives with overseas backgrounds can discourage firms from breaking the law.[16] .

In addition, the value of returnee executives can be explained from the perspective of management control theory (Lafond and Watts, 2008)[17] and principal-agent theory can also explain the value of returnee executives: when the company's managers have greater management authority, in order to maximize their personal interests, there will be situations where their personal interests override the interests of the company, such as artificially whitewashing the financial statements published to the public, choosing rules and regulations that favor themselves, and undermining the implementation of the internal control system that affects them. All of these behaviors deviate from the interests of shareholders, and the management is trying to whitewash the performance for its own benefit, creating serious proxy problems, leading to the failure of internal control, breeding fraud and infringing on the interests of all parties. And the hiring of executives with overseas background can alleviate the above problems in a certain sense. In the more advanced market system abroad, the returnee executives can grasp stronger management ability and stronger legal spirit, which can urge the executives to maintain zero tolerance for the behavior of favoritism and fraud and affect the normal implementation of the internal control system, and can consider the problems from the perspective of stakeholders, which can largely alleviate the agency problem.[16] This will go a long way to alleviate agency problems.

Therefore, overseas experience has a positive effect on executives' perceptions and competencies. On the one hand, overseas experience exposes executives to higher quality training and education activities, which has a positive impact on their personal competence and generates the knowledge accumulation effect of returnees, thus enabling them to better improve corporate governance. On the other hand, the overseas market environment has a higher level of investor protection, a better legal system and stricter penalties for non-compliance, so the overseas background will give executives a more realistic understanding and experience of the overseas institutional culture, promoting them to comply with the system, integrity and contract enforcement.[19] This is an important factor that affects internal control. At the same time, overseas experience can help companies introduce more scientific corporate management systems[20] The experience of overseas experience can help companies introduce a more scientific corporate management system and create a multi-level internal control system. This leads to the following hypothesis:

H1: Overseas experience of executives can contribute to the quality of internal control of companies.

2.2 Digitalization of Enterprises, Overseas Experience of Executives and Quality of Internal Control

In recent years, a large number of studies have shown that the increase in the digitalization of enterprises can significantly improve the quality of internal control, for example, Qincheng Zhang and Mingzeng Yang (2022) verified that the quality of internal control significantly improved after the digital transformation of enterprises[19] ; Cheng, Liya and Hu, Xiuqun (2022) further explored that the digital development of enterprises mainly improves the quality of internal control through channels such as improving the internal environment of enterprises[20] The study shows the transformation of internal control quality from non-existent to excellent under the conditions of digital transformation by using Huawei as an example; Yujia Zhang and Hongzhen Lin (2022).[21] . It can be seen that there is a positive correlation between the degree of digitalization and the quality of internal control, because optimizing the digital level of enterprises can alleviate the information asymmetry between shareholders and management, strengthen the audit and supervision system, and thus lead to the improvement of the quality of internal control; moreover, in the process of digital transformation of enterprises, digital technology and traditional industries gradually achieve deep integration, which will promote the systematic reshaping of enterprise management. This will bring a huge impact on the internal control of enterprises, prompting a full-factor, full-process and full-system change, which will have a significant positive impact on the quality of internal control of enterprises. Most Chinese enterprises are still in the early stage of digitization or development, and their optimization and development can bring a wide space for the quality of internal control to rise.[22] .

At the same time, more literature has explored the significance of returnee executives in corporate innovation and concluded that the overseas background of executives does enhance corporate innovation to some extent (He Yannan et al., 2021) [23] and enhance the efficiency of corporate innovation (Lu, Xiaofan et al., 2021)[24] In addition, there is also literature based on different perspectives and the results of the study. In addition, there are other papers that analyze this mechanism based on different perspectives and different paths, for example, Kam Weiyu and Liu Man (2022)[25] (2022), based on the cultural convergence perspective, demonstrate that returnee executives promote innovation investment by enhancing the risk appetite and self-confidence of the executive team; Shen Fei et al.[26] is based on the perspective of corporate reputation to argue the positive impact of board of directors' overseas background on technological innovation. The digital transformation, as one of the important aspects of corporate innovation, is also influenced by the overseas executives to some extent. The overseas experience of executives exposes them to new technologies and digital trends and to different digital business models, and bringing these experiences and technologies back to the company allows the company to better adapt to the digital economy and improve digitalization, which in turn improves the level of internal control quality. This leads to the following hypothesis:

H2: Executive overseas experience improves the quality of internal controls by increasing the degree of digital innovation in the company.

2.3 Financing Constraints, Overseas Experience of Executives and Quality of Internal Controls

In their study of executives' overseas experience, short-termism and firm innovation, Pengcheng Qiao and Xiangbing Xu (2022) use financing constraints as a mediating variable to explore the transmission mechanism[27] They argue that both product and institutional innovations require large amounts of financial support, and financing constraints play an important role in this regard. Song, Weiwei et al. (2022)[28] argued that reducing the financing constraint can reduce the financial pressure on firms and thus increase the resources that firms invest in internal control. At the same time, the reduction in the level of financing constraints may also increase investors' trust in corporate governance and promote firms to invest more in internal control in order to improve the quality and transparency of internal control. Therefore, whether from the perspective of optimal resource allocation or from the consideration of investors' trust in the firm, the suppression of financing constraints can improve the quality of internal control, and there is a significant negative relationship between the two.

In addition, from the perspective of financing constraints, it has been argued that the introduction of returnee executives has the effect of curbing financing constraints: managers with overseas backgrounds usually combine strong financial strength and financing expertise, which is crucial for firms to break through financing constraints (Ruiz-Vargas, 2000) [29] The returnee managers fully understand the legal requirements and accounting standards of domestic and international financial markets, and are more likely to obtain bank loans, and also have the ability to obtain more foreign investment support for their firms through personal-level relationships (Zhang, 2015)[30] , alleviate financing constraints; returnee executives generally have higher education, master diversified financing means, financing techniques, and financing channels, and also have broader networks and cross-cultural communication skills, which can develop targeted and scientific financing solutions (Yang, Dongxu and Zhang, Pioneer, 2018)[31] that largely overcome the financing problems encountered by Chinese enterprises in the process of internationalization and alleviate the financing constraints of enterprises, which in turn allows the construction of internal control to obtain more construction funds and improve the quality of internal control. This leads to the following conclusions:

H3: Executive overseas experience improves the quality of internal control by curbing the financing constraints of the firm and thus the quality of internal control.

3. Research Design

3.1 Sample Selection and Data Sources

To reflect the comprehensiveness and reliability of the study, this paper selects Shanghai and Shenzhen A-share listed companies as the research subjects. The data from 2011-2021 were selected to explore the relationship between overseas experience of executives and the quality of internal control. The data sources are CSMAR database and Diebold database, and the following pre-processing is done by using Stata17.0 software: (1) remove ST,* ST companies; (2) remove listed companies in the financial industry; (3) remove samples of delisting or bankruptcy liquidation; (4) the operation of removing samples with missing data; (5) to avoid the influence of extreme values, this paper carries out a 2.5% tail shrinkage for continuous variables processing.

3.2 Variable Definition

1. The explanatory variable, internal control quality (IC): referring to Chu, Jian and Fang, Junxiong (2018)[32] et al. The data used are from the IC index of internal control of listed companies in China disclosed in the Dibble database, which is an index that portrays the level of internal control of companies from the perspective of the five elements of internal control (including internal environment, risk assessment, information and communication, control activities and internal oversight), with wide coverage, comprehensive and high authority and recognition. To avoid the problem of quantitative scale, the index is divided by 100 for standardization. A larger internal control index represents a better quality of internal control.

2. Explanatory variable-executive overseas experience (Oversea): drawing on Zheng Mingbo[33] et al. use the construction of a dummy variable Oversea to measure the overseas experience of executives, which is defined in detail as taking 1 if the firm has at least one executive or director with overseas study or work experience in a year, and 0 otherwise. given that there are significant

institutional differences between Hong Kong, Macao and Taiwan in China and the mainland, we treat the case of working or studying abroad in Hong Kong, Macao and Taiwan as the situation.

3. Mediating variables - financing constraint (Bound) and digit: First, the measures of the level of corporate financing constraint include SA index, FC index, KZ index, etc. In this paper, drawing on the practice of Ju et al, the SA index is treated as an absolute value, which is recorded as Bound. The larger its value, the more difficult it is for enterprises to carry out financing and the greater the financing constraint. Second, the level of digitization of enterprises is measured. Referring to Wu Fei et al. (2021)[34] (2021), the degree of digitalization of listed companies is portrayed from the perspective of the frequency statistics of words related to "enterprise digital transformation" in their annual reports, which is recorded as Digit.

4. Control variables (Controls): referring to Chen et al. (2020)[35]), the following control variables are selected in this paper: firm size (Size), gearing ratio (Lev), return on assets (Roa), firm growth (Growth), cash holding level (Cash), shareholding ratio of the first largest shareholder (Top), whether dual positions are combined (Dual), board size (Board), percentage of independent directors (Outr) Property, Competitive strength of the industry.

All the variables are shown in Table 1 below.

Table 1. Definition of main variables

Variables	Variable Name	Symbols	Variable values and descriptions
Explanatory variables	Quality of internal control	IC	Internal Control Quality Index for Listed Companies
Explained variables	Overseas Experience of Executives	Oversea	1 for overseas experience, 0 for vice versa
Intermediate variables	Level of financial balance constraint	Bound	Financing Constraints SA Index
	Degree of digitization	Digit	Annual report "digital transformation" word frequency
Control variables	Enterprise size	Size	Total assets at the end of the period are taken as the natural logarithm
	Gearing ratio	Lev	Total liabilities / total assets
	Return on Assets	Roa	Net income after tax/total assets
	Business Growth	Growth	Operating income growth rate
	Cash holding levels	Cash	Cash assets/total assets
	Percentage of shareholding of the largest shareholder	Top	Largest shareholder's contribution/total investment
	Whether two jobs in one	Dual	1 for two jobs in one, 0 for the other
	Board Size	Board	Number of Board of Directors
	Percentage of independent directors	Outr	Independent Directors / Board Size
	Property Properties	Property	1 is state-owned, 0 is non-state-owned
	Industry competition intensity	Compet	Herfindahl Index
	Annual	Year	Annual dummy variables, controlling for macroeconomic environment differences
	Industry	Indu	Industry dummy variables, according to the SEC's 2012 classification

3.3 Model Construction

In order to verify the enhancement effect of overseas experience of executives on the level of internal control quality, the following multivariate main regression model is constructed:

$$IC_{i,t} = \alpha_0 + \alpha_1 Oversea_{i,t} + \alpha_i Controls_{i,t} + \sum Year + \sum Indu + \varepsilon \tag{1}$$

In equation (1), IC denotes the quality of the firm's internal controls, oversea denotes the overseas experience of executives, and the above-mentioned control variables (Controls) such as firm size, gearing, and return on assets are added, and ε denotes the model random error term. In addition, year (Year) and industry (Indu) dummy variables are added to the model to control for industry and year fixed effects.

4. Empirical Analysis

4.1 Descriptive Statistics

The descriptive statistics of the relevant variables in this paper are shown in Table 2. Among them, the explanatory variable Internal Control Quality Index (IC) has a minimum value of 0.09, while the maximum value is 9.95 and the mean value is 6.603, which initially indicates that the practice of internal control work in domestic listed companies varies and there is heterogeneity in the quality of internal control, and some companies still have loopholes in internal control and need further improvement; the explanatory variable Overseas Experience (Oversea) has a mean value of 0.606 with a median of 0.489, indicating that about 60.6% of the executive team has at least one executive with overseas experience, which shows that executive team building nowadays also attaches importance to overseas experience and the proportion of returnee executives has increased. This provides a better scenario for this study, and the other mediating and control variables are also within reasonable intervals, which are basically consistent with the facts and can be further tested.

Table 2. Descriptive statistics

Symbols	Sample size	Average	deviation	Median	Minimum	Maximum
IC	16,051	6.603	0.856	6.703	0.090	9.954
Oversea	16,051	0.606	0.489	1.000	0.0000	1.000
Size	16,051	22.611	1.370	22.416	17.641	28.637
Lev	16,051	0.458	0.120	0.457	0.008	0.995
Roa	16,051	0.039	0.064	0.036	-1.648	0.786
Growth	16,051	0.171	0.498	0.105	-0.953	9.745
Cash	16,051	0.148	0.112	0.118	-0.004	0.972
Top	16,051	0.358	0.152	0.338	0.022	0.900
Dual	16,051	0.097	0.296	0.000	0.000	1.000
Board	16,051	8.691	1.702	9.000	3.000	18.000
Outr	16,051	0.375	0.056	0.333	0.167	0.800
Digit	16,051	35.821	10.098	33.336	21.654	80.040
Property	16,051	0.407	0.491	0.000	0.000	1.000
Compet	16,051	0.141	0.148	0.095	0.015	1.000
Bound	16,051	3.824	0.280	3.837	2.109	5.318

4.2 Correlation Analysis

The Pearson correlation coefficient matrix is shown in Figure 3 below. As can be seen, the correlation coefficient between the explanatory variable Internal Control Quality Index (IC) and the explanatory variable Overseas Experience (Oversea) is 0.047 and is significant at the 5% level. It can be tentatively judged that the overseas experience of executives can contribute to the improvement of the quality of internal control of the company. It is also noted that the correlation coefficients between the explanatory variables and the control variables are small, none of them is greater than 0.13; and the average VIF value = 3.03 < 10, implying that there is no significant problem of multicollinearity.

Table 3. Pearson correlation coefficient matrix

	IC	*oversea*	*size*	*lev*	*roa*	*growth*	*cash*	*top*	*dual*	*board*	*outr*	*property*	*compet*
IC	1												
Oversea	0.047***	1											
Size	0.228***	0.129***	1										
Lev	-0.003	-0.010	0.483***	1									
Roa	0.340***	0.027***	0.009	-0.329***	1								
Growth	0.138***	0.006	0.034***	0.034***	0.146***	1							
Cash	0.078***	0.022***	-0.200***	-0.357***	0.221***	0.001	1						
Top	0.153***	0.004	0.203***	0.032***	0.122***	-0.002	0.063***	1					
Dual	-0.024***	-0.004	0.064***	0.103***	-0.050***	0.009	-0.014*	-0.009	1				
Board	0.061***	0.076***	0.238***	0.123***	0.002	-0.029***	-0.038***	-0.003	-0.008	1			
Outr	0.026***	0.004	0.068***	0.017**	-0.013*	0.009	-0.005	0.066***	0.057***	-0.451***	1		
Property	0.082***	-0.081**	0.332***	0.256***	-0.070***	-0.052***	-0.024***	0.182***	0.134***	0.252***	-0.016**	1	
Compet	-0.001	-0.018***	0.023***	0.015**	-0.049***	-0.003	-0.012	0.049***	0.005	0.004	0.033***	0.026***	1

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

4.3 Analysis of the Baseline Main Regression Model

Table 4. Overseas Experience of Executives and Quality of Internal Control

Variable Symbols	(1)	(2)
	IC	IC
Oversea	0.1015*** (7.4692)	0.0289** (2.3367)
Size		0.1756*** (25.3073)
Lev		-0.1676*** (-3.2551)
Roa		3.8606*** (16.6946)
Growth		0.1492*** (8.5987)
Cash		0.1777*** (2.8562)
Top		0.2826*** (6.6887)
Dual		-0.0709*** (-3.1526)
Board		-0.0086* (-1.8334)
Outr		0.1571 (1.1970)
Property		0.0274* (1.8779)
Compet		0.1692*** (3.5043)
Constant	6.7878*** (84.5493)	2.7505*** (16.5421)
Control year	Yes	Yes
Control industry	Yes	Yes
Observations	16,050	16,050
R-squared	0.048	0.230

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

Table 4 shows the results of model (1) test. Table 4 column (1) does not add the above control variables, but only controls for time and industry fixed effects, at this time, the overseas experience of executives and the quality of corporate internal control pass the 1% significance test; Table 4 column (2) adds the control variables to the original basis, although the correlation regression coefficient is reduced to 0.0289, but still passes the significance test at the 5% level. It is sufficient to conclude that executives with overseas experience can significantly improve the quality of corporate internal control, which verifies hypothesis H1.

4.4 Robustness Test and Endogeneity Treatment

4.4.1 Replace the Explanatory Variables

The benchmark regression in this paper measures the internal control indicators of firms using the IC index from the Dibble database, but using only this internal control indicator to evaluate the quality of internal control of firms may be biased. In order to measure the quality of internal control more accurately, here we refer to Zhou Donghua et al. (2022)[36] The results are shown in column (1) of Table 5 below, and the regression coefficient is 0.0277, which is still significant at the 1% level. remains significant at the 1% level, which is consistent with the results of the main regression and is robust.

4.4.2 Substitution of Explanatory Variables

The results are shown in column (2) of Table 5 below, and the regression coefficient is 0.0158, which is significant at the 5% level and consistent with the main regression results. remains robust.

4.4.3 Shorten the Sample Period

Since there is a lot of uncertainty in the market, and the macroeconomic environment and micro-enterprise system have changed dramatically in the decade of 2011-2021, both the internal control system and the choice of executive returnees may be affected by a lot of disturbing factors during this period, this paper decides to adopt the method of shortening the sample period for robustness testing. The sample interval is shortened from 10 years to the last 4 years (2018-2021) because 2018 is one of the key points in China's comprehensive deepening reform and the closing year of the 13th Five-Year Plan. Since 2018, the Chinese government has been promoting a series of reforms such as supply-side structural reform, financial market liberalization, and intellectual property protection, which may have a complex and far-reaching impact on the internal control of enterprises, so that the interference of internal and external factors during the sample period can be reduced to a low level by shortening the sample interval. The results are shown in column (3) of Table 5 below, and the regression coefficient is 0.0456, which remains significant at the 5% level and does not change significantly from the main regression model, which further validates the findings of this paper.

4.4.4 Propensity Score Matching

To exclude endogeneity problems caused by sample selection bias and model setting bias, this paper applies the propensity score matching (PSM) method to test. Firm size, gearing ratio, return on assets, firm growth, cash holding level, shareholding ratio of the first largest shareholder, whether there are two positions in one, the proportion of independent directors, board size, property rights attributes, and industry competition intensity are selected as covariates for PSM matching. A 1:5 nearest neighbor matching method is used to select control group samples with similar characteristics for the object samples in the treatment group. Finally, the matched samples were subjected to re-run regression tests to verify the robustness of the findings. The results are shown in column (4) of Table 5 below, and the regression coefficient of 0.0262 is still significant at the 5% level, indicating that the findings of this paper are robust.

Table 5. Robustness tests

Variable Symbols	(1)	(2)	(3)	(4)
	IC_X	IC	IC	IC
Oversea	0.0277*** (3.5449)		0.0456** (2.2113)	0.0262** (2.0889)
Num_oversea		0.0158** (2.0854)		
Size	-0.0359*** (-9.4119)	0.1752*** (24.9096)	0.1546*** (14.7528)	0.1689*** (22.9454)
Lev	-0.1155*** (-4.4287)	-0.1700*** (-3.2977)	-0.1664* (-1.9333)	-0.1656*** (-3.1364)
Roa	0.1878*** (2.8158)	3.8576*** (16.6731)	3.1381*** (11.0617)	3.8004*** (16.0429)
Growth	0.0118 (1.4375)	0.1495*** (8.6073)	0.2661*** (6.4000)	0.1449*** (8.3510)
Cash	-0.1822*** (-4.9510)	0.1757*** (2.8185)	0.3936*** (3.7995)	0.1864*** (2.9156)
Top	-0.0530** (-2.0373)	0.2840*** (6.7188)	0.4369*** (6.1555)	0.2644*** (6.1266)
Dual	0.0275** (2.1219)	-0.0703*** (-3.1274)	-0.0847** (-2.1469)	-0.0687*** (-2.9214)
Board	-0.0054** (-2.0092)	-0.0086* (-1.8297)	-0.0111 (-1.4217)	-0.0073 (-1.5277)
Outr	-0.3113*** (-4.1404)	0.1592 (1.2128)	0.1910 (0.9212)	0.1357 (1.0303)
Property	-0.1421*** (-15.9780)	0.0266* (1.8155)	0.0302 (1.2470)	0.0190 (1.2870)
Compet	0.0133 (0.4278)	0.1644*** (3.3952)	0.2831*** (3.4136)	0.1425*** (2.8841)
Constant	3.1217*** (36.6261)	2.7683*** (16.4475)	2.4549*** (9.5451)	2.9739*** (17.5150)
Control year	Yes	Yes	Yes	Yes
Control industry	Yes	Yes	Yes	Yes
Observations	16,050	16,050	7,018	15,052
R-squared	0.099	0.230	0.192	0.224

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

5. Further Research

5.1 Mechanism Test

5.1.1 Digital Degree Path

The following tests are conducted for hypothesis H2: as shown in column (2) of Table 6, the overseas background of executives (Oversea) and the degree of digitization of enterprises (Digit) are significant at the 1% level with a positive coefficient of 1.0645, successfully verifying the conclusion of other scholars that returnee executives can promote the increase of digitization and drive innovation in enterprises. Meanwhile, it is observed that column (3) of Table 6, the degree of digitalization and the quality of internal control of enterprises are also significant at the 1% level with a coefficient of 0.0039, indicating that the increase in the degree of digitalization can promote the further optimization of the internal control system; after adding the mediating variables, the explanatory variables in the model are still positively and significantly related to the explanatory variables with a coefficient of 0.0248,compared to the regression coefficient of the main regression model (The coefficient is 0.0248, which is smaller than the regression coefficient of the main regression model (0.0289), indicating that the direct effects of the explanatory and explanatory variables are neutralized and weakened by the mediating variables, which shows the existence of mediating effects.

The above results suggest that enhancing corporate digitalization is an effective mechanism for executives' overseas experience to contribute to the improvement of corporate internal control quality. Hypothesis H2 of this paper is verified: executive overseas experience accelerates the digital transformation of enterprises by increasing their digitalization, which in turn improves the quality of internal control.

Table 6. Mechanisms for testing the degree of digitization

Variable Symbols	(1)	(2)	(3)
	IC	Digit	IC
Digit			0.0039*** (5.8668)
Oversea	0.0289** (2.3367)	1.0645*** (7.4531)	0.0248** (2.0037)
Size	0.1756*** (25.3073)	1.3452*** (19.7609)	0.1704*** (24.3011)
Lev	-0.1676*** (-3.2551)	1.4609*** (3.0617)	-0.1733*** (-3.3666)
Roa	3.8606*** (16.6946)	-6.7221*** (-4.6272)	3.8867*** (16.6231)
Growth	0.1492*** (8.5987)	0.1876 (1.2646)	0.1485*** (8.5794)
Cash	0.1777*** (2.8562)	9.5124*** (12.6685)	0.1408** (2.2400)
Top	0.2826*** (6.6887)	-4.3423*** (-9.1173)	0.2995*** (7.0804)
Dual	-0.0709*** (-3.1526)	-0.2609 (-1.0845)	-0.0699*** (-3.1144)
Board	-0.0086* (-1.8334)	-0.1850*** (-3.6610)	-0.0079* (-1.6858)
Outr	0.1571 (1.1970)	5.0257*** (3.4462)	0.1376 (1.0489)
Property	0.0274* (1.8779)	-0.3475** (-2.1027)	0.0287** (1.9743)
Compet	0.1692*** (3.5043)	-3.6485*** (-6.4262)	0.1834*** (3.7991)
Constant	2.7505*** (16.5421)	-5.4103*** (-3.6451)	2.7715*** (16.6558)
Control year	Yes	Yes	Yes
Control industry	Yes	Yes	Yes
Observations	16,050	16,050	16,050
R-squared	0.230	0.249	0.232

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

5.1.2 Financing Constraint Path

The following analysis is conducted for hypothesis H3: Table 7 column (2) tests the relationship between financing constraints (Bound) and executives' overseas experience (Oversea), and the results show that executives with overseas experience significantly suppress the financing constraints of firms, with a regression coefficient of -0.0162, which is significantly negative at the 1% level. Meanwhile, according to the results in column (3) of Table 7, it can be found that the suppression of financing constraints can significantly improve the quality of internal control, with a regression coefficient of -0.2531, which is significant at the 1% level; after adding the mediating variables, the explanatory variables in the model still have a positive and significant relationship with the explanatory variables, but also the regression coefficient is reduced compared to the main regression model, indicating that the direct effects of the explanatory and explanatory variables are weakened by the mediating variables are weakened by the mediating variables and there is a mediating effect.

The above results imply that suppressing corporate financing constraints is an effective mechanism for executives' overseas experience to drive the quality of corporate internal control, and hypothesis H3 is tested.

Table 7. Test of financing constraint mechanism

Variable Symbols	(1)	(2)	(3)
	IC	Bound	IC
Bound			-0.2531*** (-9.5040)
Oversea	0.0289** (2.3367)	-0.0162*** (-4.1901)	0.0248** (2.0071)
Size	0.1756*** (25.3073)	-0.0730*** (-26.5644)	0.1571*** (22.2484)
Lev	-0.1676*** (-3.2551)	0.1512*** (10.7522)	-0.1294** (-2.4996)
Roa	3.8606*** (16.6946)	0.1906*** (5.6608)	3.9088*** (16.7629)
Growth	0.1492*** (8.5987)	-0.0025 (-0.6277)	0.1486*** (8.5852)
Cash	0.1777*** (2.8562)	-0.0620*** (-3.1680)	0.1620*** (2.6015)
Top	0.2826*** (6.6887)	-0.2540*** (-18.0676)	0.2184*** (5.0777)
Dual	-0.0709*** (-3.1526)	0.0220*** (3.4533)	-0.0653*** (-2.9069)
Board	-0.0086* (-1.8334)	-0.0021 (-1.5192)	-0.0092* (-1.9559)
Outr	0.1571 (1.1970)	-0.2918*** (-5.8559)	0.0833 (0.6379)
Property	0.0274* (1.8779)	0.0997*** (23.8423)	0.0526*** (3.5253)
Compet	0.1692*** (3.5043)	-0.0349* (-1.8393)	0.1604*** (3.3319)
Constant	2.7505*** (16.5421)	5.2696*** (83.9461)	4.0841*** (18.7912)
Control year	Yes	Yes	Yes
Control industry	Yes	Yes	Yes
Observations	16,050	16,050	16,050
R-squared	0.230	0.294	0.235

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

5.2 Heterogeneity Analysis

5.2.1 Nature of Property Rights

There is both a supportive and predatory hand of the government on SOEs (Chen, Xinyuan and Huang, J., 2007).[37] . Compared with private enterprises, SOEs receive more support and assistance from the government and have more resource advantages (e.g., easy access to financing, government support, etc.), which creates favorable conditions for "returnee" executives to introduce advanced foreign business concepts and management models. In addition, state-owned enterprises are controlled by the "predatory hand" of the state, and there are also agency problems and "rigidity" problems, and the introduction of overseas managers can effectively solve these problems of state-owned enterprises: compared with the bureaucratic system within state-owned enterprises, the returnee executives' pay more attention to the enterprise's management. Compared with the bureaucratic system in SOEs, the returnee executives' pay more attention to the operational efficiency and innovation ability of enterprises, which provides opportunities and possibilities to build a good internal control mechanism. Therefore, this paper argues that it is more significant to hire returnee executives in SOEs to improve the quality of internal control, and the effect on the quality of internal control is more obvious. Based on this, this paper is divided into two groups, state-owned and non-state-owned, according to the nature of enterprise ownership, to examine the effect of executives' overseas experience on internal control quality separately. The results in column (1)(2) of Table 8 show that the effect of overseas experience of executives on the improvement of internal control quality is more significant in state-owned enterprises.

5.2.2 Competition Intensity

Companies in a highly competitive environment will tend to hire high-quality internal control auditors and will have more stringent requirements for internal control quality[38] (Yude Xu and Han, Bin , 2017). Returnee executives can bring back their experience and vision in international companies to promote the internationalization process and further improve their market competitiveness and internal control quality to adapt to the demands of such high-intensity competition. Moreover, companies in high-intensity competition often face a more complex and diverse market environment, which makes the quality of their internal controls more challenging. Therefore, this paper argues that under the high-intensity competitive environment, the advantages of returnee executives can be more clearly demonstrated, and the introduction of overseas executives can also better strengthen the quality of internal control. Based on this, this paper draws on He et al.'s (2015)[39] (2015), the Herfindahl index is used to measure the competitive intensity of the industry, and the industries are grouped according to the median by year. The results in columns (3) and (4) of Table 8 show that the overseas experience of executives is more effective in improving the quality of internal control for companies in a highly competitive environment.

5.2.3 Enterprise Size

The horse-trading effect is a tendency of bifurcation, i.e. "the stronger the stronger, the weaker the weaker", which is widely used in various fields and still applies in business management.[40] It is still applicable in business management. Due to the existence of the Matthew effect, large-scale enterprises themselves attach importance to the improvement of the internal control system and can provide sufficient funds, resources and policy support for the construction of the internal control system, as well as strong capital, strong ability to withstand risks, and can promote the rational allocation of resources. The effect of "icing on the cake" for enterprises. In contrast, small-scale enterprises, on the one hand, have a weak foundation for their own internal control construction, a lack of awareness of internal control, and management may ignore problems such as internal control defects; on the other hand, small and medium-scale enterprises themselves have problems such as difficulty in financing and backward accounting information quality. On the other hand, small and medium-sized enterprises have difficulties in financing and poor quality of accounting information. These are the objective conditions for returnee executives to change the quality of internal control, and cannot play the role of "sending charcoal in snow". Therefore, this paper argues that in large-scale enterprises, the overseas experience of executives can more significantly improve the level of internal control quality. The results in columns (5) and (6) of Table 8 show that returnee executives are better able to improve the quality of internal control in large-scale companies.

Table 8. Heterogeneity test

Variable Symbols	Nature of ownership		Competition intensity		Enterprise size	
	(1)	(2)	(3)	(4)	(5)	(6)
	State-owned	Non-State	High Strength	Low intensity	Large Scale	Small Scale
oversea	0.0565*** (2.7273)	-0.0081 (-0.5254)	0.0475*** (2.7980)	0.0126 (0.6822)	0.0461** (2.4349)	-0.0004 (-0.0258)
size	0.2166*** (23.4639)	0.1278*** (15.7684)	0.1822*** (23.3585)	0.1633*** (17.8684)	0.2632*** (24.3639)	0.0982*** (7.5649)
lev	-0.0575 (-0.8305)	-0.1243** (-2.4066)	-0.1255** (-2.2677)	-0.2565*** (-4.1448)	0.0776 (1.1463)	-0.1929*** (-3.8083)
roa	5.2079*** (23.3643)	3.4660*** (30.6837)	4.0010*** (28.1948)	3.6890*** (24.4540)	5.9596*** (31.7640)	2.9532*** (25.0264)
growth	0.1755*** (7.9508)	0.1376*** (9.5927)	0.1627*** (9.9176)	0.1357*** (7.3595)	0.1286*** (7.4119)	0.1635*** (9.7556)
cash	0.2616** (2.4755)	0.1022 (1.4266)	0.2204*** (2.6918)	0.1199 (1.3637)	0.2393** (2.3861)	0.0652 (0.9144)
top	0.0967 (1.3822)	0.3371*** (6.4654)	0.2786*** (5.0052)	0.2570*** (4.0803)	0.1326** (2.2109)	0.3364*** (5.9102)
dual	-0.0136 (-0.4820)	-0.1264*** (-4.1320)	-0.0652** (-2.3192)	-0.0708** (-2.3863)	-0.0891*** (-3.0759)	-0.0500* (-1.7954)
board	-0.0081 (-1.3428)	-0.0146** (-2.3005)	-0.0140** (-2.4311)	-0.0026 (-0.3958)	-0.0229*** (-4.0865)	0.0026 (0.3861)
outr	0.0673 (0.3732)	-0.0825 (-0.4816)	0.1034 (0.6252)	0.2347 (1.3065)	-0.2206 (-1.3259)	0.1662 (0.9194)
compet	0.2051*** (2.5787)	0.1003 (1.5335)	0.0340* (1.7956)	0.0245 (1.1870)	0.0733*** (3.6668)	-0.0282 (-1.4822)
Constant	1.7696*** (8.7548)	4.1066*** (19.8677)	0.0304 (0.4855)	0.3209* (1.9474)	0.0743 (0.9768)	0.1391** (2.1569)
Control year	Yes	Yes	Yes	Yes	Yes	Yes
Control industry	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,533	9,517	7,349	8,701	8,032	8,018
R-squared	0.273	0.210	0.221	0.244	0.283	0.163

Note: ***, ** and * indicate significance levels of 1%, 5% and 10%, respectively.

6. Conclusion and Insight

In this paper, we use Shanghai and Shenzhen A-share listed companies from 2011-2021 as a sample to verify the impact of the overseas background of executives on the level of internal control of enterprises in China. The empirical test has the following conclusions: (1) executives with overseas background can significantly improve the quality of internal control; (2) returnee executives can achieve the improvement of internal control quality by enhancing the digitalization of enterprises; (3) returnee executives can also achieve the improvement of internal control quality by alleviating the financing constraints of enterprises; (4) the effect of overseas experience of executives on internal control quality is more significant in state-owned enterprises than in private enterprises; (5) the effect of overseas experience of executives on internal control quality is more significant in enterprises with high competition intensity than in enterprises with weak competition intensity; (6) the effect of overseas experience of executives on internal control quality is more significant in large-scale enterprises than in small and medium-sized enterprises. In this paper, four methods of replacing explanatory variables, replacing explanatory variables, shortening the sample period, and propensity matching scores are used to pass the robustness test, and the conclusions are reliable.

The following insights can be obtained from the findings of this paper: (1) When appointing executives, companies can introduce senior talents with overseas experience on a merit basis and attract international management innovators in a targeted manner according to the needs of relevant domestic industries. In addition, enterprises should encourage and support existing executives to attend international professional conferences and seminars, conduct overseas study visits, and hire internationally renowned scholars to give lectures, etc. to improve their professional knowledge and export-oriented awareness, which will in turn help enterprises improve their internal control. Especially among state-owned, highly competitive and large-scale enterprises, the introduction of overseas talents can be further increased and a corresponding talent screening and supervision mechanism can be established to improve the quality of internal control and enterprise vitality;(2) Local governments should respond positively to the strategy of "strengthening the country with talents" of the Party Central Committee, and formulate comprehensive and scientific policies for introducing returnees based on industrial development needs, talent supply and demand, and national development strategies, combining industrial chain, innovation chain and talent chain. Local governments can implement preferential policies for returnees, such as taxation, housing, and medical care, in order to increase returnees' willingness to return to their home countries and their sense of integration. In addition, the government should provide more favorable career development environment and conditions for returnee talents, including professional career planning and guidance, quality vocational training, and support for innovation and entrepreneurship platforms, in order to attract and retain outstanding returnee talents, further improve the internal control of enterprises, and promote high-quality economic development.

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