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# The Dynamics of Capital Market Opening and Executive Turnover

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**Abstract:** This study uses the Shanghai-Hong Kong Stock Connect as a quasi-natural experiment to empirically examine the impact of capital market opening on executive turnover in Chinese A-share listed companies. The findings are as follows: First, capital market opening significantly increases the probability of abnormal executive changes, reflecting a direct effect. Second, firm performance and the competitive environment of the product market play significant moderating roles in this relationship, with high-performing firms and executives in highly competitive industries being more likely to experience turnover. Finally, investor sentiment, financing constraints, and the proportion of institutional ownership serve as mediators in the process by which capital market opening affects executive turnover, with institutional ownership exhibiting a full mediation effect. The results indicate that capital market opening effectively promotes the optimization of corporate governance structures by strengthening external governance pressure and influencing internal corporate decision-making.

**Keywords:** Capital market opening; executive turnover; corporate governance; Shanghai-Hong Kong Stock Connect.

## 1. Introduction

This study aims to assess the dynamic changes in executive turnover under the context of capital market liberalization and to explore the mechanisms through which institutional opening may influence internal corporate governance. Using the Shanghai-Hong Kong Stock Connect (SHSC) program as a quasi-natural experiment, this research employs empirical methods to quantify the impact of capital market reforms on executive turnover and analyze firms' governance responses under external market pressure.

With the advancement of globalization and institutional opening strategies, financial market liberalization has become a critical issue in China's economic development. As a significant milestone in the bilateral opening of China's capital markets, SHSC has had a profound impact on corporate behavior, particularly in areas such as executive turnover, information disclosure, and internal governance [1]. The entry of foreign investors has increased the demands for transparency and managerial efficiency, which may prompt firms to optimize executive teams and enhance governance quality, thereby strengthening market trust [2].

Theoretically, executive turnover is regarded as an important signal of internal governance improvement and strategic adjustment. In the Chinese market, where information asymmetry and incentive issues are prominent, executive changes not only reflect performance but may also represent a proactive corporate response to external institutional changes [3, 4]. Capital market opening may indirectly influence executive turnover through mechanisms such as improved information disclosure, investor sentiment effects, alleviation of financing constraints, and increased institutional investor participation [5].

Moreover, the competitive structure and market position of the industry in which a firm operates may moderate the impact of capital market opening on executive turnover. This study treats product market competition as a key moderating variable to examine how competitive conditions affect the relationship between capital market liberalization and executive changes [6].

In summary, leveraging the SHSC policy window and micro-level firm data, this study systematically analyzes the effects and mechanisms of capital market opening on executive turnover from three dimensions: direct effects, moderating effects, and mediating effects. The findings provide empirical evidence and policy insights for optimizing corporate governance and deepening capital market reforms [7].

## 2. Literature Review

### 2.1. Capital Market Opening

Existing studies examine the effects of capital market opening at both macro and micro levels. At the macro level, capital market liberalization is generally regarded as a key driver of financial development and economic growth. Cross-border capital flows can improve resource allocation, enhance market efficiency, and attract foreign investors, thereby boosting economic vitality [8]. Some studies suggest that opening markets can increase innovation output and corporate competitiveness; however, it also introduces volatility risks, especially in emerging economies with underdeveloped regulatory systems, where liberalization may exacerbate market instability or even trigger systemic risk.

At the micro-level, capital market opening can improve financing conditions for listed companies, alleviate financing constraints, and enhance the informational content of stock prices, thereby promoting investment efficiency and internal governance optimization [5]. The entry of foreign investors and heightened analyst attention can, through external monitoring mechanisms, compel firms to strengthen information disclosure and governance structures [2]. Nonetheless, short-term speculative capital may amplify market volatility, impose pressure on corporate decision-making, and even weaken management's capacity for long-term strategic planning.

In summary, capital market opening may improve the corporate governance environment while simultaneously

introducing market pressures and uncertainties.

## 2.2. Executive Turnover

Executive turnover has long been a key topic in corporate governance research. Classic studies suggest that executive changes are typically driven by performance pressure: when firms underperform, the board of directors may replace management to reduce agency costs and signal governance improvement to investors [3]. In addition, executive characteristics, power structures, and internal control quality also influence the likelihood of turnover [4].

Recent research highlights the significant impact of external factors on executive turnover. Market conditions, intensified industry competition, or strengthened regulatory oversight can increase managerial governance pressure, raising the likelihood of replacement [6]. Conversely, when external uncertainty rises and firms' risk-bearing capacity declines, boards may exercise greater caution in executive replacement decisions, affecting turnover frequency [9].

Overall, executive turnover is influenced both by internal operational performance and by external institutional and market environments.

## 2.3. Product Market Competition

Product market competition is widely recognized as an important external governance mechanism influencing corporate behavior. Moderate competition generates a "pressure effect," motivating firms to improve efficiency, optimize investment decisions, and enhance innovation capacity to avoid market exit [10]. Competitive environments can also strengthen executive incentive constraints, improve decision-making efficiency, and reduce opportunistic behavior [11]

Research also indicates that excessive competition may force firms to cut innovation investment, increase cash holdings, or adopt short-term strategies, thereby weakening governance effectiveness. Therefore, the impact of product market competition is context-dependent. In corporate governance studies, competitive conditions are often considered a complementary mechanism to board oversight: the more intense the competition, the harder it is for executives to conceal ineffective management, which may increase the sensitivity of executive turnover [7]

## 2.4. Literature Review Summary and Research Gaps

A review of existing literature reveals the following:

Research on capital market opening has largely focused on economic growth, financing constraints, and information disclosure, while studies on internal corporate governance—particularly executive turnover—remain relatively limited.

Executive turnover research continues to center on firm performance, with insufficient discussion on how external institutional changes, such as capital market liberalization, affect executive replacement mechanisms.

Although the governance effects of product market competition have received attention, there is a lack of systematic analysis on how competition interacts with financial market pressures under capital market opening to influence executive turnover.

Based on these gaps, this study focuses on the institutional context of the Shanghai-Hong Kong Stock Connect, examining how external pressures from market liberalization and product market competition jointly affect executive turnover in listed companies. The aim is to address the intersection of institutional change and corporate governance and to provide insights for improving capital market regulations and governance practices.

## 2.5. Theoretical Framework

This study aims to examine the mechanisms of executive turnover in listed companies under the context of capital market opening and to analyze the dynamic changes in executive replacement under the joint influence of external governance pressure and product market competition. Based on agency theory, information asymmetry theory, and external governance theory, the following theoretical framework is constructed.

### 2.5.1. Agency Theory

Agency theory posits that the separation of ownership and control may lead executives to engage in opportunistic behavior, potentially harming shareholder interests [12]. When management decisions result in declining firm performance, the board of directors may replace executives to reduce agency costs. Therefore, executive turnover functions as an internal governance mechanism to correct managerial deviations and enhance firm value. Under the context of capital market opening, firms face higher performance pressures and external supervision, making agency conflicts more visible and increasing the sensitivity of executive replacement.

### 2.5.2. Information Asymmetry Theory

Capital market opening introduces more professional investors, analysts, and foreign institutions, improving the quality of information disclosure and reducing market information asymmetry [13, 14]. As market transparency increases, executive behavior becomes more observable, and firm performance and risk conditions are reflected more rapidly in stock prices, thereby intensifying supervision from the board and external investors. Hence, capital market opening may increase the likelihood of executive turnover through the pathway of "enhanced information transparency → strengthened supervision → increased accountability."

### 2.5.3. External Governance Theory

External governance theory emphasizes that corporate governance is influenced not only by the board but also by capital markets, product markets, and legal institutions [15]. Following capital market opening, the entry of foreign institutional investors raises governance expectations, compelling management to focus more on performance and compliance. Under heightened external governance pressure, if a firm underperforms or discloses insufficient information, the probability of executive replacement increases, demonstrating the external governance effect of capital market opening on executive turnover.

### 2.5.4. Product Market Competition Theory

Product market competition, as another key external governance mechanism, imposes survival pressure on firms when competition is intense, requiring management to improve efficiency and avoid performance decline. Simultaneously, the board is more likely to replace executives to signal improvement to the market when performance falters. Product market competition can amplify the governance pressure induced by capital market opening; that is, the more intense the competition, the stronger the effect of market liberalization on executive turnover [16, 17].

# 3. Research Methodology

This study adopts a combination of quantitative and qualitative analyses to comprehensively examine the impact of capital market opening on executive turnover in listed companies and its underlying mechanisms.

In the quantitative analysis, a quasi-natural experiment is constructed based on the launch of the Shanghai-Hong Kong Stock Connect, using a difference-in-differences (DID) model to evaluate the effect of capital market opening on the probability of executive turnover. On this basis, moderating effect models and mediating effect models are further introduced to test the moderating roles of product market competition and firm market position, as well as the mediating mechanisms of investor sentiment, financing constraints, and institutional ownership.

In the qualitative analysis, the institutional context and theoretical mechanisms related to capital market opening are systematically reviewed to provide an explanatory framework for the empirical results. Drawing on agency theory, information asymmetry theory, and external governance theory, this analysis clarifies how capital market opening influences executive turnover through external supervision and market pressures.

## 3.1. Research Design

This study adopts a comprehensive research design that integrates theoretical analysis with empirical validation to systematically assess the impact of capital market liberalization on executive turnover in listed companies.

In the quantitative component, A-share listed companies from 2013 to 2023 are used as the sample, with the implementation of the Shanghai-Hong Kong Stock Connect treated as a quasi-natural experiment shock. Propensity score matching (PSM) and difference-in-differences (DID) models are constructed to identify the dynamic changes in executive turnover before and after capital market opening. The analysis examines the direct effects of executive turnover, the moderating effects of firm performance and product market competition, and the mediating effects of investor sentiment, financing constraints, and institutional ownership in the process by which capital market opening influences executive changes.

In the qualitative component, a literature review and theoretical analysis are conducted to construct a logical research framework, identifying the key pathways through which capital market liberalization may affect corporate governance structures. This framework provides theoretical support for the empirical models and enhances the interpretability of the results.

By combining data-driven empirical testing with theoretical mechanism analysis, this study not only reveals the causal relationship of executive turnover under the SHSC context but also offers policy implications, providing practical guidance for capital market reform and corporate governance optimization.

## 3.2. Study Sample

The study population comprises A-share companies listed on the Shanghai Stock Exchange between 2010 and 2023. For research purposes, the sample was screened as follows:

The initial sample included 894 listed companies;

270 companies that were delisted or transferred to other boards were excluded;

40 financial firms were excluded to avoid interference from their unique regulatory and governance structures;

15 companies labeled as ST (Special Treatment) during the study period were excluded to eliminate the impact of extreme financial distress.

After screening, the final study sample consisted of 569 companies (894 − 270 − 40 − 15 = 569).

## 3.3. Research Instruments and Data Collection

The data for this study were primarily obtained from authoritative databases and publicly available sources:

CSMAR (China Stock Market & Accounting Research Database): corporate governance, executive turnover, ownership structure, and financial indicators;

Wind Database: marketization indices, institutional ownership proportions, and investor sentiment indicators;

Public company announcements and stock exchange disclosures: information on executive turnover events.

Through these sources, 7,397 observations were obtained (569 companies × 13 years). Detailed descriptions of the variables are provided in the variable table. This study did not use surveys or interviews and relied entirely on verified, structured, and publicly accessible data, ensuring data reliability and reproducibility.

## 3.4. Data Analysis

This study primarily employs a difference-in-differences (DID) regression model. The models are specified as follows:

$$Turnover_{i,t}=\alpha_0+\alpha_1\ Treat_{i,t}+\alpha_2\ Post_{i,t}+\alpha_3\ Treat_{i,t}\times Post_{i,t}+\sum Control+\sum\alpha_i\ INDs_i+\sum\alpha_t Years_t+\varepsilon_{i,t}$$

$$Turnover_{i,t}=\beta_0+\beta_1 Treat_{i,t}+\beta_2 Post_{i,t}+\beta_3 Treat_{i,t}\times Post_{i,t}+\beta_4 HHI+\beta_5 HHI\times DID+\sum Control+\sum\beta_i INDS_i+\sum\beta_t Years_t+\varepsilon_{i,t}$$

$$Turnover_{i,t}=\gamma_0+\gamma_1 Treat_{i,t}+\gamma_2 Post_{i,t}+\gamma_3 Treat_{i,t}\times Post_{i,t}+\gamma_4 CR_4+\gamma_5 CR_4\times DID+\sum Control+\sum\beta_i INDS_i+\sum\beta_t Years_t+\varepsilon_{i,t}$$

$$Turnover_{i,t}=\delta_0+\delta_1 Treati,t+\delta_2 Post_{i,t}+\delta_3 Treat_{i,t}\times Post_{i,t}+\delta_4 PCM+\delta_5 PCM\times DID+\sum Control+\sum\beta_i INDS_i+\sum\beta_t Years_t+\varepsilon_{i,t}$$

Where $Turnover_{i,t}$ represents abnormal executive turnover. The coefficient $\alpha_3$ of $Treat_{i,t} \times Post_{i,t}$ captures the difference in executive turnover between the treatment and control groups before and after the SHSC policy implementation, representing the net policy effect. A significantly positive $\alpha_3$ indicates that capital market opening significantly increases the probability of executive turnover. $Ind_i$ and $Year_t$ are industry and year dummy variables controlling for fixed effects, and ∑Control includes Tobin's Q, audit opinion type, return on assets, firm growth, proportion of independent directors, and large shareholder fund occupation as control variables.

The mediating effects are tested using a three-step approach to examine whether capital market opening affects executive turnover through investor sentiment (Sentiment), financing constraints (SA), and institutional ownership (INST):

Step 1: $Turnover_{i,t}=\alpha_0+\alpha_1 Treat_{i,t}\times Post_{i,t}+\sum Control+\sum\alpha_i INDs_i+\sum\alpha_t Years_t+\varepsilon_{i,t}$

Step 2: $M_i=\alpha_0+\alpha_1 Treat_{i,t}\times Post_{i,t}+\sum Control+\sum\alpha_i INDs_i+\sum\alpha_t Years_t+\varepsilon_{i,t}$

Step 3: $Turnover_{i,t}=\alpha_0+\alpha_1 Treat_{i,t}\times Post_{i,t}+\alpha_2 M_i+\sum Control+\sum\alpha_i INDs_i+\sum\alpha_t Years_t+\varepsilon_{i,t}$

Here, $M_i$ represents the three mediating variables in this study: investor sentiment (Sentiment), financing constraints (SA), and institutional ownership (INST).

#### 3.4.1. Variables and Variable Definitions

**Table 1.** Viables and Variable Definitions

| Variable Type | Variable Name | Symbol | Description |
|---|---|---|---|
| Dependent Variable | Executive Turnover | Turnover | Takes a value of 1 if company i experiences a chairman or executive change in year t; otherwise 0 |
| | SHSC Target Company | Treat | Takes a value of 1 if the sample belongs to a Shanghai-Hong Kong Stock Connect target company; otherwise 0 |
| Independent Variable | SHSC Timing | Post | Takes a value of 1 for the year a company is included in the Shanghai Stock Connect and subsequent years; otherwise 0 |
| | Return on Assets | Roa | Measured by return on total assets, i.e., net profit / total assets |
| | Investor Sentiment | Sentiment | Firm-level investor sentiment derived from decomposing Tobin's Q |
| Mediating Variable | Institutional Ownership | INST | Total shares held by institutional investors divided by tradable shares |
| | Financing Constraints | SA | SA = -0.737 × size + 0.04 × size² − 0.04 × age; higher values indicate lower financing constraints |
| | Herfindahl-Hirschman Index | HHI | HHI = Σ(Xi/X)², where Xi is the main business revenue of a single company, and X is the total main business revenue of the industry |
| Moderating Variable | Lerner Index | PCM | (Revenue − Operating Costs − Selling Expenses − Administrative Expenses) / Revenue |
| | Market Share of Top Four Firms | CR4 | CR4 = Σ(Xi)/X, where Xi is the main business revenue of a single company, and X is the total main business revenue of the industry |
| | Tobin's Q | TobinQ | (Market value of tradable shares + number of non-tradable shares × net asset value per share + book value of liabilities) / total assets |
| | Audit Opinion Type | Auditype | Takes a value of 1 for standard unqualified audit opinions; otherwise 0 |
| | Growth Opportunities | Growth | Year-on-year growth rate of main business revenue |
| | Proportion of Independent Directors | Indep | Number of independent directors divided by total board members |
| | Major Shareholder Fund Occupation | Occupy | Other receivables divided by total assets |
| Other Variables | Year | Year | The year of observation; takes a value of 1 if it is that year, otherwise 0 |
| | Industry | Industry | Classified according to CSRC industry standards; manufacturing is classified at the secondary level, other industries at the primary level |

## 3.5. Research Ethics

All data used in this study were obtained from authoritative databases and publicly disclosed information from listed companies, including the China National Research Data Service Platform (CNRDS), company announcements, and stock exchange disclosures.

This study does not involve direct interventions or experiments with human participants and therefore poses no direct risk to individuals. All data were legally obtained and contain no private or sensitive personal information. Data processing adhered to strict anonymization and confidentiality protocols, and research results are presented in aggregated statistical form to avoid identifying specific companies or individuals.

The study strictly complies with academic ethical standards, ensuring the legality, transparency, and integrity of data usage. The research data are used solely for academic purposes and are securely stored to prevent unauthorized access or misuse.

# 4. Results and Discussions

## 4.1. Direct Effect of SHSC on Executive Turnover and the Moderating Effect of Firm Performance

**Table 2.** Direct Effect of SHSC on Executive Turnover and the Moderating Effect of Firm Performance

| Variables | Turnover (1) | | Turnover (2) | |
|---|---|---|---|---|
| Treat | -0.004 | (0.013) | -0.007 | (0.015) |
| Post | -0.096 | (0.020) | -0.090 | (0.023) |
| DID | 0.028* | (0.010) | 0.014 | (0.017) |
| Roa | -0.612* | (0.069) | -0.741* | (0.082) |
| Roa×DID | — | — | 2.102* | (1.235) |
| TobinQ | 0.002 | (0.004) | 0.001 | (0.004) |
| Indep | 0.266* | (0.068) | 0.304* | (0.071) |
| Growth | -0.0003* | (0.0001) | -0.0003* | (0.0001) |
| Audittype | -0.071* | (0.023) | -0.073* | (0.024) |
| Occupy | -0.032 | (0.138) | -0.029 | (0.140) |
| Cons | 0.241* | (0.049) | 0.254* | (0.052) |
| Controls | Controls | | Controls | |
| Ind&Year | Controls | | Controls | |
| N | 7,397 | | 7,397 | |
| $R^2$ | 0.028 | | 0.031 | |

Note: * p<0.1, ** p<0.05, *** p<0.01

#### 4.1.1. Direct Effect of SHSC on Executive Turnover

According to the regression results in Column (1) of Table 2, the DID coefficient is 0.028 ($p < 0.1$), indicating that after the implementation of the SHSC policy, the probability of abnormal executive turnover increased significantly. In other words, capital market opening directly raises the frequency of executive adjustments. This reflects that the entry of external investors imposes higher governance requirements on firms, prompting the board of directors to optimize the executive team in response to market pressure. This result is consistent with the findings of Cao: executive turnover can enhance firm value by optimizing board governance, improving decision-making efficiency, and strengthening supervision [18]

#### 4.1.2. Moderating Effect of Firm Performance

In Column (2), after including the interaction term between firm return on assets (Roa) and DID, the coefficient of the interaction term is 2.102 ($p < 0.1$), showing that firm performance significantly strengthens the effect of SHSC on executive turnover. Specifically, high-performing firms exhibit greater sensitivity to executive changes under capital market liberalization. This finding is consistent with the study of Li & Hou: firms with higher performance are more likely to adjust executives under governance pressure to achieve strategic optimization and performance improvement [11] is suggests that firms with strong performance are more likely to proactively adjust their executive team in response to policy changes, reinforcing the positive governance effect of market opening.

Summary:

The SHSC policy directly increases the probability of abnormal executive turnover.

Firm performance, as a moderating variable, amplifies this policy effect, with high-performing firms being more responsive.

Control variables indicate that the proportion of independent directors positively affects executive turnover, while growth opportunities and audit opinion type have negative effects, showing that internal governance continues to play a role in executive adjustments.

### 4.2. Moderating Effect of Product Market Competition

**Table 3.** Moderating Effect of Product Market Competition

| Variables | Turnover (1) | | Turnover (2) | | Turnover (3) | |
|---|---|---|---|---|---|---|
| DID | 0.035* | (0.013) | 0.038* | (0.014) | 0.005 | (0.012) |
| HHI | -0.028 | (0.026) | — | — | — | — |
| HHI×DID | -0.082 | (0.041) | — | — | — | — |
| CR4 | — | — | -0.020 | (0.030) | — | — |
| CR4×DID | — | — | *-0.066 ** | (0.037) | — | — |
| PCM | — | — | — | — | 0.001 | (0.002) |
| PCM×DID | — | — | — | — | 0.122 | (0.046) |
| Cons | 0.208* | (0.050) | 0.247* | (0.049) | 0.240* | (0.048) |
| Controls | Controls | | Controls | | Controls | |
| Ind & Year | Controls | | Controls | | Controls | |
| N | 7,397 | | 7,397 | | 7,397 | |
| $R^2$ | 0.029 | | 0.030 | | 0.031 | |

Note: * p<0.1, ** p<0.05, *** p<0.01

To examine the moderating effect of product market competition on the impact of the Shanghai–Hong Kong Stock Connect (Shanghai–Hong Kong Stock Connect) on executive turnover, this study introduces interaction terms between industry competition (HHI, CR4) and firm market competitive position (PCM) into the regression analysis. The regression results (Table 3) show that in Column (1), the coefficient of HHI×DID is –0.082 ($p<0.1$), indicating that the more intense the industry competition (the smaller the HHI), the stronger the promoting effect of the Stock Connect on executive turnover. In Column (2), the coefficient of CR4×DID is –0.066 ($p<0.05$), further confirming that the intensity of industry competition plays a moderating role in the effect of capital market opening on executive turnover. This result is also consistent with the study of Li & Hou (2021) on the impact of executive turnover on corporate performance: in highly competitive industries, firms are more likely to adjust executives under external market pressure to improve governance efficiency [11]. Column (3) shows that the coefficient of PCM×DID is 0.122 ($p<0.05$), suggesting that the higher a firm's market position within its industry, the more sensitive it is to implementing executive changes under the pressure of the Stock Connect, reflecting the moderating effect of competitive position. This is consistent with Hao's study on the effects of executive incentives and regional disparities on management turnover: firms with higher market positions are more sensitive to external policy signals and tend to proactively adjust their executive teams to respond to market pressures [19].

In summary, whether from the perspective of industry competition or firm market position, product market competition significantly moderates the impact of capital market opening on executive turnover. That is, the stronger the competitive conditions, the more pronounced the effect of the Stock Connect policy on executive replacement, demonstrating a clear moderating effect.

## 4.3. Mediating Effects of Investor Sentiment (Sentiment), Financing Constraints (SA), and Institutional Ownership (INST)

### 4.3.1. Mediating Effect of Investor Sentiment

**Table 4.** Mediating Effect of Investor Sentiment

| Variables | Turnover (1) | | Sentiment (2) | | Turnover (3) | |
|---|---|---|---|---|---|---|
| Treat | -0.004 | (0.013) | — | — | — | — |
| Post | -0.096 | (0.020) | — | — | — | — |
| DID | 0.028* | (0.010) | 0.512*** | (0.018) | 0.018** | (0.009) |
| Sentiment | — | — | — | — | 0.016** | (0.005) |
| Controls | Controls | | Controls | | Controls | |
| Ind & Year | Controls | | Controls | | Controls | |
| N | 7,397 | | 7,397 | | 7,397 | |
| $R^2$ | 0.030 | | 0.558 | | 0.032 | |

Note: * p < 0.1, ** p < 0.05, *** p < 0.01

Column (1) shows that the direct effect of DID on executive turnover is 0.028, with a standard error of 0.010 and p<0.1, indicating that the implementation of the Shanghai–Hong Kong Stock Connect has a positive impact on abnormal executive turnover in listed companies, although the significance is relatively modest.

Column (2) shows that the coefficient of DID on investor sentiment is 0.512, with a standard error of 0.018 and p<0.01, significantly positive, indicating that the opening of the capital market significantly enhances investor sentiment, that is, external investors' attention to and reaction toward corporate governance is strengthened. This is consistent with Abuduwali's study: the implementation of the Shanghai–Hong Kong Stock Connect policy can improve investors' market expectations and confidence, thereby strengthening external supervision over corporate governance [8].

In Column (3), after introducing investor sentiment as a mediating variable, the DID coefficient decreases to 0.018 (standard error 0.009, p<0.05), while the coefficient of Sentiment on executive turnover is 0.016 (standard error 0.005, p<0.05), significantly positive. This indicates that investor sentiment partially mediates the effect of the Stock Connect on executive turnover: capital market opening improves investor sentiment, thereby enhancing market monitoring of management performance and prompting firms to be more likely to adjust executives. This finding is also consistent with Wang, Zhang, & Wei's study on the relationship between executive turnover and audit risk perception: external supervision and market expectations play a significant role in executive adjustments [2].

In summary, the empirical results support the hypothesized mediating effect of investor sentiment, showing that capital market opening not only directly promotes executive turnover but also indirectly influences internal governance decisions through investor sentiment.

### 4.3.2. Mediating Effect of Financing Constraints (SA)

**Table 5.** Mediating Effect of Financing Constraints (SA)

| Variables | Turnover (1) | | SA (2) | | Turnover (3) | |
|---|---|---|---|---|---|---|
| Treat | -0.004 | (0.013) | — | — | — | — |
| Post | -0.096 | (0.020) | — | — | — | — |
| DID | 0.028 * | (0.010) | 1.502* | (0.045) | 0.005 | (0.010) |
| SA | — | — | — | — | 0.011* | (0.003) |
| Controls | Controls | | Controls | | Controls | |
| Ind & Year | Controls | | Controls | | Controls | |
| N | 7,397 | | 7,397 | | 7,397 | |
| $R^2$ | 0.028 | | 0.392 | | 0.029 | |

Note: * p < 0.1, ** p < 0.05, *** p < 0.01

Column (1) shows that the direct effect of DID on executive turnover is 0.028, with a standard error of 0.010 and p<0.1, indicating that the implementation of the Shanghai–Hong Kong Stock Connect has a positive effect on abnormal executive turnover in listed companies, although the significance is relatively modest.

Column (2) shows that the coefficient of DID on financing constraints (SA) is 1.502, with a standard error of 0.045 and p<0.01, significantly positive, indicating that the opening of the capital market substantially increases the firm's financing constraint indicator (i.e., easing financing constraints or improving the financing environment), reflecting that external market pressure and institutional opening significantly influence corporate financing behavior. This finding is also consistent with Yang & Yang, who pointed out that executive turnover can restrain the excessive financialization of holding listed companies, with improvements in the financing environment providing greater resource support for executive adjustments [5].

In Column (3), after introducing financing constraints as a mediating variable, the DID coefficient on executive turnover decreases to 0.005 (standard error 0.010, p>0.1, not significant), while the coefficient of SA on executive turnover is 0.011 (standard error 0.003, p<0.01), significantly positive. This indicates that financing constraints play a significant mediating role in the effect of the Stock Connect on executive turnover: capital market opening indirectly affects executive turnover decisions by improving corporate financing conditions (relieving financing constraints), prompting firms

to optimize executive structure under governance pressure. This result is also consistent with Liu & Ren, who studied the alleviation of financing constraints and corporate governance optimization [20], further confirming the importance of improved financing conditions for executive turnover decisions.

In summary, the empirical results support the hypothesized mediating effect of financing constraints, showing that capital market opening not only directly promotes executive turnover but also indirectly influences corporate governance behavior by improving financing conditions.

#### 4.3.3. Mediating Effect of Institutional Ownership (INST)

**Table 6.** Mediating Effect of Institutional Ownership (INST)

| Variables | Turnover (1) | | INST (2) | | Turnover (3) | |
|---|---|---|---|---|---|---|
| Treat | -0.004 | (0.013) | — | — | — | — |
| Post | -0.096 | (0.020) | — | — | — | — |
| DID | 0.028* | (0.010) | 0.152*** | (0.018) | 0.003 | (0.010) |
| INST | — | — | — | — | 0.112*** | (0.017) |
| Controls | Controls | | Controls | | Controls | |
| Ind & Year | Controls | | Controls | | Controls | |
| N | 7,397 | | 7,397 | | 7,397 | |
| $R^2$ | 0.028 | | 0.180 | | 0.033 | |

Note: * p < 0.1, ** p < 0.05, *** p < 0.01

In Column Turnover (1), the DID coefficient is 0.028 (standard error 0.010), p<0.1, indicating that the implementation of the Shanghai–Hong Kong Stock Connect directly increases the probability of executive turnover in listed companies, showing a positive effect.

In Column INST (2), the coefficient of DID on institutional ownership is 0.152, with a standard error of 0.018 and p<0.01, significantly positive, indicating that the Stock Connect policy substantially increases the proportion of institutional ownership in listed companies, reflecting that capital market opening strengthens external governance forces. This finding is consistent with Abuduwali et al, who show that capital market liberalization can effectively increase institutional ownership in listed companies, thereby strengthening supervision over management [8].

In Column Turnover (3), after introducing the mediating variable INST, the DID coefficient on executive turnover decreases to 0.003 (standard error 0.010, not significant), while the coefficient of INST on Turnover is 0.112 (standard error 0.017, p<0.01), significantly positive. This shows that the effect of the Stock Connect on executive turnover is largely realized statistically through the mediating channel of increased institutional ownership. In other words, the entry of institutional investors strengthens supervision over management, thereby promoting executive replacement. This is also consistent with Li, D., who found that the entry of institutional investors can strengthen external supervision over management, thereby facilitating the rational adjustment of executives [21].

In summary, institutional ownership plays a significant mediating role in the impact of the Shanghai–Hong Kong Stock Connect on executive turnover in listed companies, indicating that capital market opening indirectly increases the likelihood of executive turnover by enhancing external governance mechanisms.

## 5. Conclusion

(1) Direct Effect of Capital Market Opening

The empirical results show that the implementation of the Shanghai–Hong Kong Stock Connect significantly increases the probability of abnormal executive turnover in listed companies, indicating that capital market opening can directly promote the optimization of corporate governance and strengthen management performance accountability.

(2) Moderating Effects

Moderating Effect of Firm Performance: Firm performance significantly moderates the impact of capital market opening on executive turnover. Companies with higher performance are more likely to replace executives after the implementation of the Stock Connect, suggesting that high-performing firms are more capable of responding to external institutional pressures through management adjustments.

Moderating Effect of Product Market Competition: Both industry competition and a firm's market position significantly enhance the effect of capital market opening on executive turnover. Firms in highly competitive industries or with leading market positions are more likely to adjust management under external pressure, reflecting a typical moderating effect.

(3) Mediating Effects

Investor Sentiment: Capital market opening partially promotes executive turnover by enhancing investor sentiment, reflecting a partial mediating effect.

Financing Constraints: Capital market opening alleviates corporate financing constraints, indirectly increasing the likelihood of executive turnover, also showing a partial mediating effect.

Institutional Ownership: The proportion of institutional ownership increases significantly, representing a key pathway through which capital market opening affects executive turnover. After introducing this mediating variable, the direct effect of DID on executive turnover is no longer significant, indicating a full mediating effect and highlighting the mechanism of executive adjustment through strengthened external governance pressure.

In summary, capital market opening systematically drives executive turnover in listed companies through direct effects, the moderating effects of firm performance and product market competition, and the mediating mechanisms of investor sentiment, financing constraints, and institutional ownership. These findings provide empirical evidence for understanding the integrated influence of external institutional pressure, firm performance, and market competition on corporate governance.

## 6. Implications

This study shows that firm performance and the intensity

of product market competition moderate the impact of capital market opening on executive turnover. Based on these findings, regulators should focus on institutionalizing executive turnover by establishing scientific qualification reviews for executive appointments, performance evaluations for boards of directors, and transparent disclosure mechanisms for executive changes, thereby avoiding arbitrary or short-term-driven executive movements. For high-performing firms and those operating in highly competitive markets, policy guidance and regulatory incentives can ensure that executive turnover serves as a tool to enhance governance efficiency and respond to external market changes, rather than as a means of governance risk or market manipulation. These measures can help build an internally and externally coordinated corporate governance system under the backdrop of capital market opening, providing institutional support for the long-term stable development of listed companies.

# Institutional Review Board Statement

This study was conducted in accordance with the ethical guidelines established by the Research Ethics Review Committee of the University of Baguio.

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