

The Impact of Chief Executive Officer Characteristics on Corporate Performance

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Abstract. As the core decision-maker of a company, the personal characteristics of the Chief Executive Officer significantly influence corporate performance, which is a key issue in the field of strategic management. This article systematically reviews empirical studies on five types of Chief Executive Officer characteristics: education level, talent, overseas experience, financial expertise, and psychological traits, revealing their mechanisms of action. The research findings show that Chief Executive Officer talent, financial expertise, and overseas experience that combines both learning and working backgrounds significantly positively promote corporate performance; however, the value of education level is only reflected from a long-term perspective. Conversely, excessive psychological confidence leads to a decline in performance. Based on this, it is recommended that business owners comprehensively assess professional capability, practical experience, and psychological maturity when selecting a Chief Executive Officer, and managers should balance confidence with risk awareness. This research provides theoretical support and practical guidance for optimizing the allocation of executives in companies.

Keywords: Characteristics, Corporate Performance, Education Level, Abilities, Psychological Traits.

1. Introduction

In the contemporary business environment, characterized by intensified globalization, competition, and market dynamics, the driving factors of corporate performance have become a focal point of interest for both academia and practice. As the chief decision-makers and the execution core of corporate strategy, Chief Executive Officer (CEO) decisions directly shape the direction of organizational development. How their personal characteristics influence corporate performance is not only related to micro-business competitiveness but also has profound implications for macroeconomic resource allocation efficiency. Although existing studies generally agree on the importance of the CEO role, significant discrepancies still exist regarding the correlation mechanism between specific characteristics, such as educational background, professional abilities, international experience, etc., and corporate performance. There is an urgent need for systematic integration and contextual analysis.

Early management theories tend to attribute enterprise performance to the market structure and industrial environment, while ignoring the role of manager heterogeneity. With the rise of the Upper Echelons Theory, scholars have gradually realized that the cognitive foundation, values and experience of top managers will indirectly affect organizational output through strategic choices. As the apex of management, the personal characteristics of the CEO have become a key insight in analyzing the differences in corporate performance. However, the existing empirical research conclusions are contradictory: for example, some literature points out that CEO education improves performance by improving decision-making quality, and some studies have proved that it can only boost market confidence in the short term through the "signal effect"; In the discussion of CEO talent, Gerhart emphasized its broad positive impact [1]. He Xiaogang and others believe that the role is limited and may even lead to the risk of dictatorship due to the concentration of power. This divergence highlights the need to deepen research in this field [2].

This paper focuses on the background of China's special system and economic transformation, takes local listed companies as the research object, and reviews the cutting-edge empirical results of five types of CEO characteristics, aiming to clarify the following core questions: First, how does the

education level of CEOs affect enterprises through the two paths of short-term profitability and long-term value? Second, how to scientifically quantify CEO talent and verify its causal relationship with performance? Third, in the context of significant differences in cultural systems, does overseas experience necessarily improve the performance of Chinese enterprises? Fourth, does the CEO with financial expertise create value by optimizing investment and financing behavior? Fifth, the CEO psychological traits, such as overconfidence. Does it constitute a double-edged sword for performance?

To answer the above questions, this paper selects five groups of methodologically representative empirical studies for analysis: Lu Yao and Zhang Mingyu deconstruct the nonlinear impact of education level based on A-share 10-year data; Ma Lijun and Zhou Wei used CEO change events to quantify the value of talents; Cao Haimin et al. combined the theory of the high-echelon to test the threshold effect of "double background" of overseas experience; Zeng Jianzhong reveals the path of financial expertise to alleviate financing constraints through the intermediary model; Yang Qin argues the cost of overconfident performance from the perspective of behavioral finance [3]. Through the cross-comparison of multiple conclusions, the study not only integrates the common mechanisms of CEO characteristics affecting performance but also identifies the moderating variables in the Chinese context, such as the nature of property rights and the institutional environment [4].

The contribution of this review is that, theoretically, it bridges the cognitive differences of the trait-performance relationship and reveals the differentiated boundaries of education, experience, ability, and other traits; In practice, it provides evidence-oriented suggestions for enterprise owners to select executives and managers for self-improvement. The following will carry out a literature review of the five types of characteristics, and finally, condense the management enlightenment and future research directions [5].

2. Review of Related Research

2.1. The Impact of CEO Education Level on Company Performance

Research on the impact of CEO education levels on company performance has only emerged in the last twenty-five years. However, the relationship between CEO education levels and company performance is influenced by various factors, so no unified conclusion has been reached both domestically and internationally. This paper references the research of Lu Yao and Zhang Mingyu to analyze the relationship between CEO education levels and company performance. This study selects companies listed on the A-share market in China from 2003 to 2012 as samples. When constructing the regression model, three aspects are used to measure the company's performance: profitability, revenue growth rate, and stock market value performance. Profitability is measured using Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS). The annual total sales growth rate is used to measure revenue growth rate, and Tobin's Q is used to evaluate stock market value performance. Additionally, endogenous factors such as whether the CEO experienced the Cultural Revolution during their education phase, whether they were born in a big city, and the number of candidates in the college entrance examination that year are considered. The study concludes that CEO education levels do not significantly enhance company profitability, but CEO work experience can effectively improve profitability. CEO education levels do not significantly impact revenue growth rates, and excessively long tenure can negatively affect revenue growth. The academic qualifications of the CEO may create a blind trust effect among investors towards executives with high degrees, which, if stock markets are considered efficient, may positively impact the company's stock market value. Thus, while the CEO's education level may not have a positive impact on the company in the short term, it could promote business development in the long run and increase the company's value [6].

2.2. The Impact of the CEO on Company Performance

Since the 21st century, global companies have regarded having an outstanding CEO as one of their core competitive advantages. But can the talents of a CEO intuitively enhance a company's performance? Is the role of the CEO really that important for a mature business? Gerhart believes that the impact of the CEO on company performance has a broadly positive effect. Research by He Xiaogang and Li Xinchun suggests that the influence of the CEO on company performance is minimal. There are also studies indicating that CEOs can have negative effects on their companies; for example, Bebchuk's research argues that the CEO position can create a dictatorial mechanism, which can cast a shadow on employees' psychology, thus affecting company performance. In recent years, most studies examining the relationship between CEO talent and company performance have not been able to quantify CEO talent or have directly replaced it with a limited number of different indicators, leading to a lack of a close relationship between the two and making the research less convincing. Therefore, this article refers to the experiments conducted by Ma Lijun and Zhou Wei from Shenzhen University to analyze what kind of impact CEO talent has on company performance. This experiment reflects the talent of a CEO through the stock market's reaction after the CEO leaves and the market's reaction after a new appointment. Firstly, the efficient market theory posits that stock prices in the market reflect all useful information. Thus, the stock prices before and after the CEO change are influenced by all useful market information, primarily that affected by the change of the CEO, meaning that any difference in stock prices before and after is entirely caused by the change in the CEO position. To test this relationship, Ma Lijun and Zhou Wei analyzed 201 cases of CEO changes in listed companies on the Shanghai and Shenzhen stock exchanges from 1997 to 2007. They concluded that this relationship is highly persuasive. Regarding company performance, this experiment reflected it through the three-year buy-and-hold return rate, which is the return rate investors would achieve by buying and holding the company's stock until the CEO's departure, compared to the overall market, as well as the total asset return rate. After establishing a regression model and conducting stability tests, they concluded that there is indeed a positive correlation between CEO talent and company performance, meaning that companies with good performance also tend to have more capable CEOs; conversely, if a CEO is less capable, the company's performance is likely to suffer [7].

3. CEO's Overseas Experience and Corporate Performance

In recent years, our country has continuously launched talent introduction strategies to attract a large number of outstanding overseas talents to return to the country, and the capital market increasingly favors individuals with overseas experience. In our country, especially among listed companies, there are more and more CEOs with overseas backgrounds. However, whether talents with overseas experience can truly improve company performance has been subject to discussion. Additionally, since our National Day is different from that of most countries in the world, this issue requires separate analysis in our country. This article is based on the research conducted by Cao Haimin, Ding Xinyi, and Cheng Shi from the School of Management at Shanghai University of Engineering Science. First, the experiment hypothesizes based on high-level ladder theory and resource dependence theory. Then, it selects non-financial listed companies in A-share from 2014 to 2018 as the research sample. Referring to the practices of Nan Xingheng and Zhao Chen, company performance is measured using Tobin's Q, market value/replacement cost. Borrowing the approach of Dai Yunhao, Kong Dongsheng, and Du Yong, a virtual variable named Overseas is introduced, where having overseas experience in the same year as the CEO is marked as 1, otherwise as 0, to represent the CEO's overseas experience. Furthermore, control variables such as company size, debt ratio, operating income growth rate, and property rights nature are included. After conducting extensibility experiments and stability tests, it is concluded that CEOs with overseas experience can significantly improve company performance, but this effect is not very obvious in state-owned enterprises due to the unique institutional background of our country. Further exploratory tests reveal

that only when the CEO possesses both overseas study and work experience will a positive impact on company performance occur [8].

4. CEO Financial Expertise and Corporate Performance

To explore the impact of CEOs with financial expertise on corporate performance, this paper refers to the research conducted by Zeng Jianzhong, Liu Guidong, and Pang Rui. Based on the upper echelons theory and capital structure theory, three hypotheses are proposed: The CEO's financial expertise enhances corporate performance. The CEO's financial expertise promotes corporate performance by influencing corporate financing behavior. The CEO's financial expertise enhances corporate performance by influencing corporate investment behavior. A total of 17,719 research samples from 2,940 A-share listed companies from 2010 to 2020 are selected. The explained variables include ROE, net profit/average assets, and the Kaplan-Zingales (KZ) index, while controlling for variables such as debt-to-asset ratio and company size. A regression model is then established for analysis. Ultimately, after conducting endogeneity tests and consistency analysis, the conclusion is reached that CEOs with financial expertise contribute to improved corporate performance, and the stronger the financing constraints of the company, the more pronounced the impact of CEO financial expertise on corporate performance [9].

5. CEO Overconfidence and Corporate Performance

As the CEO of a company, having strong confidence can better facilitate market exploration and lead all employees in the development and exploration of new products and innovations. However, if a CEO's confidence is excessively strong, it can increase the operational risks of the business and bring more uncertainty to the company. To investigate the correlation between a CEO's psychological state and business performance, this article uses Yang Qin's research as a reference. Yang Qin's experiment, after regression analysis, indicates that excessive confidence in CEOs is negatively correlated with business performance. In other words, if a company's CEO is overly confident, it can lead to differentiated behaviors and result in more erroneous decisions, ultimately decreasing the company's operating performance [10].

6. Conclusion

The CEO's talents, educational background, overseas experience, work experience, and financial expertise have a positive correlation with corporate performance. Among them, the positive impact of educational background on corporate performance should be viewed from a long-term perspective, while overseas experience requires a combination of learning and work experience. If a CEO is overly confident internally, it can negatively affect corporate performance, leading to a reduction in performance and harming the company. For business managers, if they want to become a qualified CEO, they must first possess excellent talents and solid management and skill knowledge, such as financial knowledge. They should have the opportunity to study and train abroad to broaden their horizons. Additionally, they need to maintain a good psychological state and avoid blind overconfidence. When business owners select a CEO, they should carefully examine the candidate's past experiences, such as previous work achievements and educational background, preferably with rich work experience. They should inquire whether the candidate can grasp sufficient professional skills and knowledge, and prioritize candidates with diverse abilities. During interviews, they should closely observe whether the candidate's psychological state is mature and stable, and whether they can calmly express their views.

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