

Corporate Performance Gap, CEO Characteristics and Corporate Strategic Change

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Abstract

Based on the resource-based theory and the high ladder team theory, this paper analyzes the relationship between corporate performance gap and corporate strategic change by taking A-share listed companies in Shanghai and Shenzhen from 2009 to 2020 as samples, and discusses the moderating effect of CEO characteristics on the relationship. The results show that the performance gap has a significant positive correlation with the strategic change, that is, the greater the performance gap, the greater the degree of strategic change; The academic background of CEOs has a significant positive moderating effect on the performance gap and the strategic change respectively, and the tenure of ceos has a significant negative moderating effect on the performance gap and the strategic change respectively. The financial work background of ceos has no significant influence on the relationship between the performance gap and the strategic change. This study is helpful for enterprises to carry out strategic reform and adjustment from the resource-based perspective, and also helps enterprises to understand the performance of senior managers when there is a gap in corporate performance, so as to provide references for corporate governance.

Keywords: Corporate Performance Gap; CEO Characteristics; Corporate Strategic Change

Introduction

In the context of global economic integration, the economic situation at home and abroad has become more and more complex. The market environment is constantly volatile, and modern technologies such as digital technology and artificial intelligence are developing rapidly, which intensifies the change of enterprise development environment. Enterprises are facing competitive pressure from all aspects. In addition to internal operation and management, they also have to face the threat of competitors in the same industry, or even competitors from other industries. When the enterprise environment changes or the enterprise ability changes, it is particularly important to keep the adaptive performance of enterprise strategy and environment in time. How to establish and maintain their own competitive advantage has become a difficult problem.

Strategic reform in the case of uncertain environment is an effective measure to enhance the environmental adaptability and achieve long-term development (Liu Haichao, Li Huan, 2009; Wang Tienan et al., 2010). Enterprise managers need not only to develop strategies and pay attention to environmental changes, but also to adjust the enterprise strategy in time to make it gain competitive advantages in the fierce market. At present, there are very limited studies on how to choose strategic decision reference points, especially on the impact of decision reference points on enterprise strategic reform. Enterprise performance is the direct

reflection of the operation effect of enterprises, and the level and fluctuation of performance are often closely related to the enterprise strategic reform. Yang Yan et al. (2015) confirmed that when there is a gap between actual performance and expected performance, enterprises can respond by strategic reform. Whether strategic reform can be implemented and how the implementation effect is, has an important relationship with the enterprise senior management team, especially the CEO. The core factor of enterprise strategic reform is the impact of CEO as the core of the senior management team and the decision-making body, and this change is the result of the comprehensive effect of external environment and internal resources and conditions (Lian Yanling, He Xiaogang, 2015; Yun Jiang, Ning Xin, 2020). At present, the research on enterprise performance feedback mostly focuses on the theory of enterprise behavior, focuses on the performance evaluation, search and decision-making process of the organization, and focuses on the ultimate impact of these processes on the organization's strategic decision-making.

Based on the level of enterprise historical performance, this paper analyzes the gap between enterprise historical performance and current performance, and explores the enterprises' cognition of their own performance changes to develop and make strategic reform behaviors. At the same time, based on the high echelon theory, this paper considers the background characteristics of CEO (such as educational background, financial background, etc.) to analyze the moderating role of CEO on the relationship between corporate performance gap and enterprise strategic reform.

Research Objectives

1. Corporate performance gap and corporate strategic change

Enterprise behavior theory believes that managers will evaluate the current performance level based on the past performance of the enterprise and the overall performance of the industry. Lian Yanling et al. (2015) According to corporate behavior theory and high-level echelon theory, research found that when managers face greater business expectations, they are more likely to adopt a more strategic change. Impact on strategic change. Due to the heterogeneity between enterprises, it is of great significance to measure the performance gap between the company's own performance (Wu Xiaoyi et al., 2021). The emergence of corporate performance gaps exposes problems or bottlenecks in corporate operations, which will force enterprises to conduct search, change the method of resource allocation to reverse the gap, to optimize operations, improve efficiency, or open up new market opportunities (Lian Yanling et al., 2014).

The corporate performance gap in this article mainly reflects the gap between its own performance in different periods. It is measured with the gap between historical performance and current performance, reflecting the performance differences between the enterprise at different periods. When the difference is increased, it means that the business status of the enterprise is far worse than the historical management situation, which means that the current strategy of the enterprise has leaked, and the management pressure may be transformed into a motivation to change, prompting the enterprise to make strategic adjustments or seek new strategic opportunities. Therefore, this article proposes:

H1: The performance gap of corporate performance is significantly positive as corporate strategic reform. That is, the greater the gap between the historical performance of the enterprise and the current performance, the greater the strategic change of corporate.

2. The moderating effect of CEO's academic background

Hambrick and Mason (1984) believes that education background reflects the cognitive ability, knowledge reserves and professional literacy and values of corporate executives. Tihanyi et al. (2000) studied the education level of executives. The results showed that the education level was significantly correlated with the innovative performance of the enterprise. At the same time, the higher the education level, the higher the education level. Shen and Cannella (2003) believes that the education level can reflect the personal pursuit of knowledge and can reflect the ability of individual cognitive environment to complexity and processing information. This cognition and ability can help managers better aware of the urgency of change and innovation, and then help promote strategic change.

High education background can increase CEO information reserves and skill reserves, such as information and skills required for innovation opportunities. Strategic changes require CEO knowledge to achieve a certain height and level, and can achieve the exchange, absorption and integration of new and old knowledge. At the same time, the higher the CEO education, the less the possibility of corporative strategic inertia (Wang Ji, Zhu Jigao, 2018). So, this article proposes:

H2: CEO's academic background has a significant positive and positive adjustment effect on corporative performance gaps and corporative strategic change.

3. The moderating effect of CEO's financial work background

1. Shipilov and Danis (2006) highlighted that the professional background of company executives has a profound impact on the strategic choices made by the organization, subsequently influencing its development. The financial work experience of CEOs affects their values, problem-solving approaches, and overall capabilities. CEOs exhibit greater passion and confidence in areas they are familiar with, enabling them to accurately comprehend and interpret information relevant to decision-making processes, thereby influencing the company's strategic decisions (Jiang Fuxiu et al., 2012; Shi Beibei et al., 2019). Xiong Sisi et al. (2022) discovered that CEOs with financial experience significantly enhance R&D investments compared to those without such expertise. CEOs with a financial work background can effectively leverage their professional advantages to promptly identify operational and management issues within enterprises while providing timely improvement suggestions, thus facilitating resource allocation for achieving healthy, sustainable, and rapid organizational growth (Jiang Fuxiu et al., 2012). Furthermore, CEOs with financial work experience possess better abilities to evaluate risks and benefits associated with different decisions while reducing blind or irrational resource wastage behaviors as well as potential corporative losses. Consequently, this paper proposes the following hypothesis:

H3: CEO's financial work background has a significant positive and positive adjustment effect on corporative performance gaps and corporative strategic change.

4. The moderating effect of tenure in CEO organization

The CEO organization can reflect the psychological tendency and management quality of the CEO's thinking, risk tendency, and personal preferences to a certain extent (Liu Yawei, Zhang Zhaoguo, 2016). The study of Zhongxi et al. (2019) found that the longer the term of office of the CEO, the less likely it is to implement a strategic change; while the average term of office of the executive team, the longer the term of office of the executive team, and the more strengthening the CEO term of term length and strategic change, Essence The long term of managers will cultivate strong corporative inertia, and form informal organizations within the management, weaken the heterogeneity of the executive team, create the phenomenon of

path dependence on strategic behavior, and for innovative activities with higher risks There are often resistance.

When the CEO with a long term is facing a corporative performance gap, because he is unwilling to deny his strategic decision -making in the early stage (Musteen et al., 2006), it is often reluctant to launch strategic changes (Hoskisson et al., 2017). CEOs with a short term will have a low psychological commitment of the current corporative strategy. They often use strategic changes to prove their ability and enhance the image and prestige of individuals in management. So, this article proposes:

H4: The term of the CEOs organization has a significant negative adjustment of corporative performance gap and corporative strategic change.

Research Scope

1. Sample and data

This article is selected from the 2009-2020 A-share listed company in Shanghai and Shenzhen as the sample. The original data comes from the Cathayan and Ruisi database acquisition. According to the following steps, the sample is screened and processed: ① eliminate SP and PT samples; ② to eliminate companies that cannot be judged by the nature of the enterprise; ③ exclude financial insurance companies; ④ excluding sample companies that are seriously lacking in the data required by the relevant indicators. After excluding the newly listed data, a total of 14,279 non -balanced panel data were obtained. All continuous variables were winsorized at 1% and 99% to ensure the accuracy and reliability of the data. This article classified the industries where the sample enterprises are located in accordance with the China Securities Regulatory Commission industry classification standards (SIC first -level code).

2. Variable measurement

2.1 Explanation variable

This article refers to the measurement method of Chen Hongwei et al. (2018) business expectations to reduce the actual performance of the enterprise with the level of business expectations. It is expected that the performance level adopts corporative historical performance. The difference between the first year and the ROA in the first year of the middle of 2009-2020 as the gap between corporative performance, analyzing the impact of corporative strategic change.

Corporative performance gap (diffROA) :

$$diffROA_{i,t} = ROA_{i,t-1} - ROA_{i,t}$$

2.2 Explained variables

The degree of corporative strategic changes is often reflected in the re -allocation and planning of corporative resources. In this article, refer to the research by ZHANG and Rajagopalan (2010), Ye Kangtao et al. (2014), Lian Yanling et al. (2014). Research variables as a degree of strategic change. Get the six dimensions of corporative strategic resources, including: ① The ratio of R & D expenditure to sales revenue ② The ratio of advertising expenditure to sales revenue; ③ The ratio of non -productive expenditure to sales revenue; ④ net assets and fixed assets The ratio of the total value; ⑤ of the ratio of inventory to sales

revenue; ⑥ financial leverage coefficient. This article refers to the research methods of Lian Yan Ling et al. (2014), which are based on 2009-2019, respectively. The variance (t-1, T+3) of each of the six indexes in five years is calculated ($\sum [ti-T]^2/[n-1]$), and then standardize the annual variance based on the industry, and finally add the above 6 index values of the above-mentioned standardization as a strategic change in each enterprise every year. The amplitude. The larger the value, the higher the level of corporative strategic changes(SC). If these ratio is not much different in different years, it means that the company's business management is in a state of maintaining the status quo. Instead, if these ratio fluctuations are relatively large, it means that the company's resources are allocated in major adjustments during this period.

2.3 Adjusting variables

CEO's educational background (Education): referring to the study of Shaodong (2021), 1 will be used to represent secondary school education or below; 2 represents college degree; 3 represents a bachelor's degree; 4 represents postgraduate students; 5 represents doctoral students and above.

CEO's financial work Background: Referring to the measurement methods in the current literature on the work experience of senior executives and the study of Xiong Sisi et al. (2022), dummy variables are used to measure the characteristics of CEO's financial work background, that is, when the CEO has financial work experience, the value is 1, otherwise it is 0.

Organizational Term of CEO (Term) : Refer to the study of Zhong Xi et al. (2019) on the length of CEO tenure in an organization (years).

2.3.1 Control variables

In this paper, referring to the research of Lian Yanling et al. (2014), Chen Hongwei et al. (2018) and Zhong Xi et al. (2022), the following control variables are selected: Company size (Lsize), and the logarithm of the company's total assets is used as the proxy variable of company size; Financial leverage (Lev), measured as a ratio of liabilities to total assets; Property right (State) : 1 for state-owned enterprises and 0 for non-state-owned enterprises; Listing Duration, the number of years since the listing of the enterprise (years); Growth, measured by the growth rate of business revenue; Ownership concentration (Top10), measured by the proportion of shares held by the top 10 shareholders. In addition, this paper adds annual dummy variables and industry dummy variables to control the impact of annual changes and industry environment differences on organizational strategic decisions, respectively.

Research Findings

1. Descriptive statistics and correlation coefficients of main variables

Table 1 reports descriptive statistics and correlation coefficients for the main variables. As can be seen from Table 1, the mean value of strategic change (SC) is close to 0, and the standard deviation is 2.91, indicating that although the degree of strategic change is generally large, the degree of strategic change of different enterprises is quite different. In addition, there is a significant positive correlation between firm performance gap and firm strategic change.

Table 1 Descriptive statistics and correlation coefficients of main variables

variable	Mean	SD	SC	diffRoa	Educatio n	Backgrou nd	Term
SC	-0.00445	2.910	1				
diffRoa	0.00253	0.0344	0.065***	1			
Education	3.400	0.892	0.033***	-0.00900	1		
Background	0.0983	0.298	0.0100	-0.00800	0.00900	1	
Term	4.420	3.520	-0.059***	-0.0120	0	-0.028***	1

2. Regression Analysis

Before the formal test, this paper conducted variance inflation factor (VIF) diagnosis on the research model. The mean value of VIF was 1.33, and there was no variable VIF greater than 10, indicating that there was no multicollinearity between variables. Since non-equilibrium panel data was used in this study, a fixed-effect model was selected for analysis by conducting F-test and Hausman test. Considering the impact of year and industry on regression results, this paper fixed industry and year. In addition, in order to reduce the endogeneity problem, this paper refers to the studies of Lian Yanling (2015) and Song Tiebo (2017), etc., and interprets the variables one phase after the explained variables. Centralize the interpreted and regulated variables before constructing the interaction terms. In order to save space, control variables, year dummy variables, and constants in Table 2 are represented by CONTROLV.

This paper first examines the relationship between corporative performance gap and corporative strategic change. Secondly, it examines the moderating effect of CEO characteristics (CEO educational background, CEO financial work background, CEO tenure in the organization) on the relationship between corporative performance gap and corporative strategic change.

Table 2 examines the relationship between firm performance gap and firm strategic change. Model 1 is the basic model, including all regulating and controlling variables. Model 2 examines the impact of firm performance gap on firm strategic change. The test results show that there is a significant positive correlation between firm performance gap and firm strategic change ($\beta=6.090$, $P < 0.01$), and it is still robust in the subsequent model 3 to model 5, which is consistent with the previous research conclusions. This indicates that when the historical performance of an enterprise in the early period is higher than that in the later period, with the increase of the performance gap, the enterprise will implement the new strategy and the degree of deviation from the current strategy will be greater. The test results support H1.

Model 3 analyzes the moderating effect of CEO's educational background. The results show that there is a significant positive correlation between the interaction term of CEO's educational background and corporative performance gap and corporative strategic change ($\beta=9.967$, $P < 0.01$), indicating that CEO's educational background significantly enhances the positive impact of corporative performance gap on corporative strategic change, and H2 is verified.

Model 4 mainly reflects the moderating effect of CEO's financial work background. The results show that the interaction coefficient between CEO's financial work background and firm performance gap is negative and not significant ($\beta=-1.664$, $P > 0.1$), and H3 fails to pass the verification. The reason may be that the number of CEO's with financial work background in the sample enterprises is small, and the test effect is not obvious.

Model 5 mainly reflects the moderating effect of CEO's organizational tenure. The results show that there is a significant negative correlation between the interaction term between CEO's organizational tenure and corporative performance gap and corporative strategic change (beta=-1.602, P < 0.01), indicating that CEO's organizational tenure significantly enhances the positive impact of corporative performance gap on corporative strategic change. H4 is verified.

Table 2 Test results of the relationship between corporative performance gap and corporative strategic change

VARIABLES	Model1 SC	Model2 SC	Model 3 SC	Model 4 SC	Model 5 SC
diffROA		6.090*** (0.515)	2.300*** (0.542)	6.158*** (0.519)	5.757*** (0.512)
Education			0.093*** (0.036)		
diffRoa_Education			9.967*** (0.506)		
Background				-0.263*** (0.091)	
diffRoa_Background				-1.664 (1.496)	
Term					-0.016** (0.007)
diffRoa_Term					-1.602*** (0.123)
CONTROLV	yes	yes	yes	yes	yes
Observations	18,119	14,279	14,279	14,279	14,279
Number of id	2,637	2,433	2,433	2,433	2,433
R-squared	0.004	0.015	0.047	0.016	0.029
F value	10.46***	25.93***	64.62***	21.24***	39.87***

Note: The value in parentheses indicates the corresponding t value; ***, **, * indicates a significance level of 1%, 5%, and 10% respectively.

3. Robustness test

In order to ensure the robustness of the empirical results, this paper conducts a robustness test: (1) Robustness of the performance gap of enterprises. In this paper, the independent variable ROA is replaced by ROE for re-testing; (2) Robustness test of sample time, and re-analysis after removing head and tail. Test demerit robustness, limited to space is not listed.

Discussion

This paper takes the characteristics of CEO as the starting point to explore the impact of corporate top management team on corporate performance gap and strategic change behavior. The results show that: when the historical performance of the enterprise is higher than the current performance, it indicates that the performance of the enterprise is not ideal, and the enterprise manager will help the enterprise out of the dilemma by adopting the strategic change of resource allocation; And the greater the vertical performance gap, the degree of strategic change will increase. The higher the educational background of the CEO, the better the cognition of strategic management and the judgment of performance, the more effective the allocation of enterprise resources and the promotion of enterprise strategy adjustment; Financial work background has no significant moderating effect on whether CEO makes strategic change when performance gap occurs. The longer a CEO stays in an organization, the less likely it is to drive strategic change.

The research contributions are as follows: (1) In terms of research content, this paper makes a comprehensive analysis of the motivation of corporate strategic change by studying the change of corporate performance and strategic change, and explores the influence of CEO's personal characteristics on the future development direction of an enterprise by combining the theory of high ladder team and the theory of resource base, and expands the relevant theories of corporate strategic change. (2) In terms of research methods, the quantitative method of enterprise strategic change motivation can be enhanced by further expansion. By measuring the gap between the enterprise and the historical expected performance, it shows the competitiveness of the enterprise and the urgency to improve the performance level.

Recommendation

Theoretical Recommendation: The future research direction of high ladder team theory may involve many levels. First, although the theory has emphasized the impact of manager traits and strategic choices on firm behavior, future research can further explore how these traits interact with specific strategic decision-making processes and how they affect firm performance. Second, although the high-echelon theory has focused on the relationship between the demographic background characteristics of managers (such as age, education level, etc.) and cognitive abilities and values, future research can further expand this area to explore more psychological and social factors that may influence strategic decision-making.

Practical Recommendations: First, Correctly understand the performance gap of enterprises. The performance gap may have a negative impact on the business development of the enterprise, and may also provide opportunities for improvement and development of the enterprise. Therefore, enterprise managers need to comprehensively weigh the advantages and disadvantages of performance gap and take reasonable management measures to deal with it. Second, Pay attention to the selection and recruitment of CEO's. How to maintain a competitive advantage in the fierce market competition requires the management team, especially the CEO, to show excellent management ability and wisdom. When there is a performance gap in the enterprise, the personal characteristics of the CEO (educational background, tenure) have an important impact on enhancing the enterprise risk awareness and strengthening the strategic management.

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