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CFO Status and Stock Return Synchronicity *

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Abstract

In the context of the special cultural and institutional background of China, this study analyses the impact on stock return synchronicity of a chief financial officer's (CFO) status in the top management team (TMT). This research uses a CFO's rank order in the TMT (as indicated in the annual report) as the measure of CFO status in the TMT. The empirical results are as follows: (1) CFO status has a positive relationship with stock return synchronicity, thereby indicating that firms with high-status CFOs have strong stock return synchronicity; (2) this positive relationship only exists in firms with chief executive officers (CEOs) who lack an accounting or financial background; (3) a high CFO status affects stock return synchronicity by affecting the quality of the accounting information. In summary, this study suggests that a high CFO status promotes a firm's stock return synchronicity.

***Keywords*:** Chief Financial Officer, Stock Return Synchronicity, Rank Order

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财务总监地位与企业股价波动同步性

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摘要

基于中国特有文化制度背景，本文从财务总监在企业高管中所处地位这一视角出发，系统分析和检验了财务总监地位影响企业股价波动同步性的客观表现和传导机制。本文用财务总监在年度报告披露中高管的排名衡量其地位高低。研究结果显示：首先，财务总监地位与股价波动同步性之间呈现显著正向关系，表明居于较高地位的财务总监能够提高股价波动同步性；其次，截面分组检验发现，财务总监地位的作用仅在总经理不具备会计和财务工作背景组企业存在；最后，进一步检验发现高地位财务总监主要通过会计信息质量路径来影响股价变动同步性。总之，本文验证了上市公司财务总监高地位有助于提高企业股价波动同步性的研究推论。

关键词：财务总监、企业股价波动同步性、座次排序

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I. Introduction

A chief financial officer (CFO) plays a pivotal role in the top management team (TMT). A CFO's functions include monitoring, controlling, and providing strategic support (Geiger and North, 2006). Moreover, a CFO is responsible for financial, accounting, and tax matters and acts as a strategic decision maker and executor. Researchers continue to engage in debates over the role of a CFO because of the increasing exposure of accounting fraud and weak internal controls. Previous studies have investigated the impact of a CFO on a firm on the basis of factors that include tenure, age, gender, and stock incentives (Du and Zhou, 2009; Mao and Shen, 2009; Wang and Cheng, 2014; Zhang *et al.*, 2011). In addition, a few recent studies have examined the impact of the CFO from the perspective of whether the CFO is a director (Sun and Guo, 2015; Xiang, 2015), the secretary of a board of directors (Mao *et al.*, 2013), or appointed by a firm's enterprise group (Na and Na, 2012). However, only a few studies have focused on a CFO's status in the TMT. Accordingly, this topic warrants exploration but has yet to attract the attention of academia.

A CFO's status is based on a rank order, which is closely related to the traditional Confucian teaching in China that "inferiors obey superiors". The Chinese social culture of hierarchy, filial piety, and blood relation creates distinctions between superiority and inferiority, seniors and juniors, and intimacy and estrangement. In general, the Chinese language uses the cultural principle to rank people on the basis of social status (Zhang and Xin, 2002; Xiang, 2015). The ancient ideas of sorting and ranking are included in Dongxun's *Dali*, which suggests that "people with high status were ranked at the front and people with low status ranked at the back."[3] Lu (2001) summarises the three laws of Chinese order. In these laws, the principle of "space and status" indicates that a person with a high status is the first to speak and a person with a low status speaks later. Status is determined and transferred in a special manner within organisations and society and is reflected in everyday tokens of honour, such as the order in which individuals appear in the news, at meetings and lunches, and in public files. In political forums in China, directors are portrayed in a special order; for example, members of the Political Bureau of the Central Committee of the Communist Party of China are sorted by their family names, whereas regular committee members are sorted by political status. Rank is also important to regional politicians. To strengthen the independence and monitoring authority of the Discipline Inspection Commission, the Ministry of Organisation in Hubei Province issued a statement on 8 April 2014 titled "Opinions about the Rank of the Discipline Inspection Commission Secretary" (鄂组通 [2014]30 号). In this statement, the Discipline Inspection Commission secretary was ranked after the vice secretary and before the other commission members. The preceding discussion indicates that rank reflects one's personal status in the unique culture of China.

Systematic research on a CFO's status in the TMT is rare. Jiang *et al.* (2018) find that a

[3] 董勋《答礼》曰"职高者名录在上，于人为右；职卑者名录在下，于人为左"。

high status enhances a CFO's financial executive power and facilitates his/her role in decision making, corporate governance, and reducing the risk of a stock price crash. Stock price crash risk measures the pricing efficiency of the capital market and has a close relationship with stock return synchronicity. Moreover, stock return synchronicity measures the stock informativeness of a firm. Therefore the following question should be answered: Does a CFO's status in the TMT affect stock return synchronicity? Previous research has shown that low accounting information quality indicates that extensive firm-specific information is hidden (Hutton *et al.*, 2009). Access to extensive firm-specific information by investors would lead to a considerable flow of firm-specific information in the stock market, thereby leading to low stock return synchronicity (Jin, 2010). Thus, the present study explores whether a CFO with a high status in the TMT would take prime responsibility for executing the financial duties of the role, thereby improving the quality of accounting information and reducing stock return synchronicity. In addition, this study explores whether this effect is substantial in particular situations and the possible channels by which this effect is achieved.

This study uses a CFO's rank order in the TMT as a proxy for his/her status and reviews data of A-share listed firms from 2003 to 2017 in China to explore the relationship between a CFO's status and stock return synchronicity. The empirical results show that the higher the status of a CFO in the TMT, the greater the stock return synchronicity. This relationship only exists in firms where the chief executive officer (CEO) has no accounting or financial background. This study makes the following contributions to the literature. First, it examines the relationship between a CFO's status and stock return synchronicity, determines the economic impact of a CFO's status, and presents a new research direction in the area of stock return synchronicity. Second, the results of the study indicate that the impact of a CFO's status varies across firms according to the CEO's background, thereby illustrating that the impact of a CFO's status depends on the work experience of other top executives. Third, this research explores the possible channels by which a CFO's status impacts stock return synchronicity, thereby contributing to a profound understanding of stock return synchronicity. Lastly, the study provides new information on corporate governance in countries experiencing economic transition.

II. Literature Review and Hypothesis

2.1 Literature Review

2.1.1 Review of CFOs

CFOs are essential participants in the management of firms. A CFO plays a critical role in a firm's financial, accounting, and internal control activities and is involved in strategic decision making and execution. Geiger and North (2006) find that a new CFO substantially reduces a firm's discretionary accruals. Indjejikian and Matějka (2009) use salary and

compensation data as bases to show that CFOs manipulate financial reports for personal gains if they participate in the annual compensation plan. Jiang *et al.* (2013) find that staggered tenure between CEOs and CFOs reduces positive earnings management. Furthermore, firms with a finance committee or a CEO with a financial background provide low levels of compensation incentives for CFOs, indicating that financial expertise in the corporate governance structure decreases the value of a CFO's financial skills (Gore *et al.*, 2011). Na and Na (2012) study enterprise groups and determine that a CFO assigned by an enterprise group substantially reduces a firm's level of cash holdings. In the context of an economic recession, Beck and Mauldin (2014) explore the influence of CFOs and audit committees on audit fees and find that the former have a greater impact on audit fees than the latter.

A few studies have focused on the impact of CFO characteristics on firms. Du and Zhou (2009) explore CFOs' impact on firm performance and show that CFO compensation improves the return on equity but has a negative impact on firms where the CEO (or vice CEO without a financial background) serves as the CFO. As senior executives are responsible for accounting, the CFO impacts a firm's accounting policy directly. Zhang *et al.* (2011) find that a CFO's age, education, and tenure have positive effects on accounting conservatism, while a female CFO has a negative impact on accounting conservatism. Wang and Cheng (2014) find that firms with CFOs who are male and have a high education and a short tenure provide higher goodwill impairment. Xue *et al.* (2012) examine a CFO's influence in terms of organisational standing, profession, reputation, and ownership in a firm and find that CFOs with considerable influence are associated with low effective tax rates. Jiang *et al.* (2018) find that a CFO's status in the TMT has a negative relationship with stock price crash risk, indicating that a high CFO status reduces the stock price crash risk.

In addition, previous studies have examined the CFO/director duality. Mao *et al.* (2013) find that having a CFO who is also the secretary of the board of directors enhances the value relevance of earnings, thereby improving capital market efficiency. Xiang (2015) determines that having a CFO who is also a director curbs overinvestment, thereby alleviating the negative impact on future operating performance. Sun and Guo (2015) find that the duality of the CFO and internal director role leads to a decrease in accounting accruals and restatements and improved execution of a CFO's monitoring function.

2.1.2 Review of stock return synchronicity

Stock return synchronicity in China is unusual, and the literature generally shows that the country's stock return synchronicity is higher than that of the majority of other countries (Morck *et al.*, 2000; Jin and Myers, 2006; Eun *et al.*, 2015; Cheng *et al.*, 2017). Prior studies have shown that the financial status, growth opportunities, and product characteristics of different firms account for the substantial differences in stock prices. If the stock price can reflect firm-specific information accurately, timely, and completely, then stock prices among different firms would be considerably diverse. Morck *et al.* (2000) suggest that firms in

countries with effective knowledge protection mechanisms would have low stock return synchronicity. Jin and Myers (2006) propose a few new hypotheses based on the findings of Morck *et al.* (2000). They use the model of Morck *et al.* to infer that an increase in information transparency will result in the enhancement of the infringement motivation and behaviour of insiders, thereby making them likely to bear additional firm-specific risks. Accordingly, this increase leads to reduced absorption by external investors of firm-specific risks, further creating low stock informativeness and high stock return synchronicity. Jin and Myers (2006) use an empirical perspective and find that corporate transparency has a substantial effect on stock return synchronicity.

Morck *et al.* (2000) and Jin and Myers (2006) investigate the link between return synchronicity and the informativeness of stock prices at the country level. However, one potential drawback of country-level studies is that firms operating in different environments are simultaneously affected by their respective national specific characteristics. Some studies have examined whether the relationship between return synchronicity and information environment at the country level carries over to the firm level. However, the results of these studies are mixed. On the one hand, Hutton *et al.* (2009) and Peterson *et al.* (2015) prove that information transparency will reduce stock return synchronicity. On the other hand, Dasgupta *et al.* (2010) suppose that stock prices reflect future stock information. Thus, stock prices would have low fluctuation when future events happen, leading to high stock return synchronicity. That is, a high level of stock price informativeness is closely related to future stock return synchronicity. Jin (2010) uses the data of China and finds that high-quality accounting information enables investors to predict future cash flow by using such information, hence lowering investors' motivation to acquire firm-specific information. Minimal firm-specific information would flow into stock prices, leading to higher stock return synchronicity. Thus, high-quality accounting information would increase stock return synchronicity. Wang *et al.* (2009) suggest that there is substantial noise in the stock market of China, thereby enabling high information transparency to mitigate the uncertainty of future development. Accordingly, reducing the noise impact on stock prices would contribute to low firm-specific price fluctuation while increasing stock return synchronicity.

Some studies have explored the possible factors that impact stock return synchronicity from the perspectives of country institutions and capital markets. You *et al.* (2007) propose that the increasing development of the capital market would enrich stock informativeness, thereby lowering stock return synchronicity. Several studies have examined the role of financial analysts, who are the information intermediaries between firms and investors. Piotroski and Roulstone (2004) compare the data across emerging countries and find that firms followed by numerous analysts have low stock return synchronicity, although the empirical evidence from China shows an opposite conclusion. Zhu *et al.* (2007) and Jiang (2013) suggest that analysts following a firm promote stock price informativeness so that the

firm's stock price contains extensive firm-specific information, thereby lowering stock return synchronicity. Huang and Guo (2014) find that with considerable media attention, additional firm-specific information is included in the stock price, leading to a low level of stock return synchronicity. He *et al.* (2018) find that firms issuing a high percentage of operating and strategic information in the total information issued have low stock return synchronicity.

The majority of previous studies consider a CFO's personal characteristics, such as gender, age, and tenure, but only a few have focused on a CFO's status. The current study uses a unique cultural institutional background as the basis to provide a new research perspective on the behaviours of senior executives. In addition, the existing literature has mainly focused on a CFO's impact on accounting policy, with only a few studies investigating stock return synchronicity. Accordingly, this situation presents a good opportunity for us to conduct our research. Although the evidence in previous studies has indicated that China has relatively high stock return synchronicity, it remains unclear whether discernible differences exist in stock return synchronicity across firms in China. We study the link between return synchronicity and CFO ranking unique to China, in which such a link is deemed to influence earnings quality. This linkage comes from the effect of CFO status on managerial incentives, which are likely to influence a firm's information environment and stock return synchronicity.

2.2 Hypothesis Development

Ritual culture is an important aspect of Confucian culture and has a widespread impact on the economy of China. Rituals can construct social order, implement popular education, and maintain social relationships (Gao and Li, 2001). This unique culture is the basis for the sorting principle that provides arrangements in the order of superiority to inferiority, senior to junior, and intimacy to estrangement. Furthermore, this principle is stable and constant in Chinese society. Among the Chinese, individuals are ranked on the basis of the principle of propriety, which means that a manager with a high social status will have a high rank (Wang, 2007). The annual public reports of listed firms rank top executives by their importance in the firm, and hence the rank reflects personal power in the firm (Zhu *et al.*, 2016). Therefore, the ranking of executives in annual reports follows the propriety principle, in which a high rank means a high status in the TMT.

A CFO with a high status in the TMT has substantial decision-making power within a firm, leading this executive to substantially perform the financial responsibilities of the role. Given that a CFO has a direct effect on the quality of accounting information, this study proposes that a CFO with high status can affect stock return synchronicity by improving the quality of the accounting information. From the perspective of managerial entrenchment, a CFO with high status in the TMT has considerable motivation to improve the quality of the accounting information. Previous studies have shown that a CFO's personal characteristics substantially impact managerial entrenchment (Wang and Cheng, 2014), hence affecting a firm's accounting policy. First, a CFO with a high status in the TMT can enjoy a strong

reputation and allocate extensive enterprise resources that strengthen his/her managerial entrenchment. The risk of losing reputation and social status may prompt CFOs to take self-interested actions to protect themselves; for example, career risk may be reduced by adopting a conservative accounting policy. In addition, CFOs with high status also have substantial reasoning and cognitive ability, which possibly leads to the adoption of conservative accounting policies. Second, CFOs with high status can comprehensively fulfil their monitoring function. A high-status CFO can influence the CEO's decisions (Jiang *et al.*, 2013), whereas a low-status CFO would be influenced by the CEO (Qu *et al.*, 2012). When CFOs disagree with CEOs, CFOs can still influence the final decision. In addition, a CFO can audit the authenticity, legitimacy, and rationality of a firm's information and ensure the accuracy, truthfulness, legality, and reasonableness of the accounting information. Third, a CFO with a high status can regulate corporate operations and avoid financial fraud. With respect to the internal control system, a high-status CFO would less likely be affected by other executives, thereby reducing the entrenchment of other managers. Hence, improving the efficiency of internal controls and reducing accounting fraud will increase the relative value of accounting reports, which in turn will lead to high-quality accounting information.

The quality of accounting information is closely related to stock return synchronicity. Low-quality earnings information indicates that additional firm-specific information is hidden (Hutton *et al.*, 2009) and that investors must seek out substantial private information, leading to low stock return synchronicity. Hence, the quality of accounting information has a positive relationship with stock return synchronicity from the perspective of private information. Reduced synchronicity is caused by the increase in private information (Durnev *et al.*, 2003; Feng *et al.*, 2009). Investors can predict the future cash flow of firms with high-quality accounting information; as the marginal cost of uncovering private information is low, there is less motivation for investors to seek private information. The reduction in private information causes high stock return synchronicity. Thus, the present study submits that firms with high-status CFOs have high-quality accounting information and high stock return synchronicity. This study uses prior analyses as bases to propose that a CFO's status has a positive effect on stock return synchronicity. The research hypothesis is as follows:

Hypothesis 1: A positive association exists between a CFO's status and stock return synchronicity.

In the context of corporate governance in the Chinese transitional economy, in which authority is supreme, the rank order of top managers may be an effective mechanism that enables TMTs to operate. Moreover, understanding how top executives are ranked in a firm is beneficial to corporate management. Ranking individuals by name does not assist in explaining the personal roles and status of executives. He and Huang (2011) find that the failure to clearly define the status of executives in the TMT increases the cost of labour and

communication, thereby resulting in internal conflicts. Therefore, determining and maintaining the status of an executive on the basis of this individual's ranking in the TMT may result in improved corporate governance.

III. Research Design

3.1 Sample Selection and Data Source

This study chooses A-share listed firms in China from 2003 to 2017 as the research sample. We focus on the senior-most executive who is responsible for the firm's daily accounting and financial work, but the title of CFO may vary across different firms. To ensure the accuracy of the data, the study excludes from the sample those firms with fewer than 200 trading days in a firm's fiscal year and firms whose data have missing variables. The final sample consists of approximately 2,374 listed firms and 22,315 fiscal year observations.

Data about CFO characteristics are manually collected from the annual reports of listed firms in China. Stock prices, financial data, and corporate governance data are acquired from the Chinese Stock Market and Accounting Research Database (CSMAR). To minimise the impact of extreme values, all variables are winsorised at the 1% level.

3.2. Definition of Variables

3.2.1 Stock return synchronicity

This study follows the same methodology as that used in prior research (Piotroski and Roulstone, 2004; Li and Wang, 2016) to calculate stock return synchronicity. First, we use Equation (1) to calculate the R-squared for each fiscal year of a firm. Then, we use the logarithm methodology in Equation (2) to normalise the R-squared. Finally, we acquire the stock return synchronicity variable *Syn*.

$$R_{i,t} = \alpha_0 + \alpha_1 MarketR_t + \alpha_2 IndR_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$Syn = \ln(R_i^2 / 1 - R_i^2) \quad (2)$$

In Equation (1), $R_{i,t}$ is the stock return of firm i on day t; $MarketR_t$ is the market return on day t; and $IndR_{i,t}$ is the industry return for industry i, as indicated by the China Securities Regulatory Commission (CSRC) on day t. The market and industry returns are calculated using the current value weight. R_i^2 is the R-squared of Equation (1) for firm i in year t.

3.2.2 CFO's status in the TMT

This study draws upon Markoczy *et al.* (2016) and Jiang *et al.* (2018) in using Equation (3) to measure CFO status.

$$Status = 1 - Rank / TMT\,size \quad (3)$$

In Equation (3), *Rank* is the rank order of the CFO among TMT members. If the CFO is ranked first, then the value of *Rank* is 1. If the CFO is ranked last, then *Rank* is equal to TMT size. TMT size is the number of executives on the TMT. Thus, a CFO who is ranked high in the TMT will have a high status value.

3.2.3 CFO characteristics and control variables

In accordance with prior studies (Li and Liu, 2012; Jiang *et al.*, 2018), this study focuses on the following characteristics: gender (*Female*), tenure (*Tenure*), educational background (*Eback*), work background (*Wback*), duality of director (*Director*), duality of board secretary (*Secretary*), and whether the CFO was promoted internally (*Ipromotion*). Also consistent with previous studies, this study controls for the following firm variables: firm size (*Size*), financial leverage (*Leverage*), Tobin's Q (*Q*), earnings capacity (*ROA*), stock turnover (*Moturn*), institutional shareholding (*Instit*), use of a Big Four audit firm (*Auditor*), proportion of independent directors (*Indep*), and whether firm is a state-owned enterprise (*SOE*). This study also controls for the fixed effects of industry (*Ind*) and year (*Year*). All variables are defined in Table 1.

Table 1 Definitions of Variables

Variable type	Variable name	Variable sign	Measurement
Dependent	Stock return synchronicity	$Syn_{i,t}$	Calculation is shown in equations (1) and (2)
Independent	CFO status	$Status_{i,t-1}$	Calculation is shown in Equation (3)
CFO characteristics	Gender	$Female_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO is female
	Age	$Age_{i,t-1}$	The natural logarithm of the CFO's age
	Tenure	$Tenure_{i,t-1}$	The natural logarithm of the CFO's work tenure
	Education background	$Eback_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO has an educational background in accounting, finance, economics, or management.
	Work background	$Wback_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO's prior work experience is in the fields of accounting, finance, economics, or management.
	Duality of director	$Director_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO is also a member of the board of directors
	Duality of board secretary	$Secretary_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO is also the board secretary.
	Promoted internally	$Ipromotion_{i,t-1}$	Dummy variable that takes the value of 1 if the CFO was promoted internally.
Control	Firm size	$Size_{i,t-1}$	Natural logarithm of the firm's total assets
	Financial leverage	$Leverage_{i,t-1}$	A firm's total debt in proportion to its total assets
	Tobin Q	$Q_{i,t-1}$	A firm's market valuation in proportion to its total assets

	Earnings capacity	$ROA_{i,t-1}$	A firm's net profit in proportion to its total assets
	Stock turnover	$Moturn_{i,t-1}$	The excess month stock turnover in each fiscal year of the firm
	Institutional shareholding	$Instit_{i,t-1}$	Shareholding percentage of institutional shareholders
	Big Four auditors	$Auditor_{i,t-1}$	Dummy variable that takes the value of 1 if the firm is audited by a Big Four audit firm
	State ownership	$SOE_{i,t-1}$	Dummy variable that takes the value of 1 if the firm is a state-owned enterprise
	Year dummies	*Year*	A series of year dummy variables
	Industry dummies	*Ind*	A series of industry dummy variables

3.3 Model Setting

To explore the effect of CFO status on a firm's stock return synchronicity, this study sets the regression model as follows:

$$Syn_{i,t} = \beta_0 + \beta_1 Status_{i,t-1} + \beta_2 CFOC_{i,t-1} + \beta_3 ControlV_{i,t-1} + Year\ \&\ Ind + \varepsilon_{i,t} \quad (4)$$

In Equation (4), $Syn_{i,t}$ is the stock return synchronicity of firm *i* in year *t*; $Status_{i,t-1}$ is the CFO's status in the previous year; $CFOC_{i,t-1}$ is the CFO's characteristics in year *t-1*; and $ControlV_{i,t-1}$ is the control variable in year *t-1*. Definitions of the control variables are presented in Table 1. *Year* and *Ind* are the year and industry dummy variables, respectively. We also use a fixed effects model to estimate each equation.

IV. Empirical Results

4.1 Summary of Statistical Results

The statistical results for all variables are shown in Table 2. *Syn* has a mean of -0.241 and a median of -0.212, with a large standard deviation of 0.701, indicating that the synchronicity distinctions among sample firms are large. *Status* has a minimum value of 0 and a highest value of 0.875, indicating that there are CFOs who have the highest and the lowest status on the TMT. The mean *SOE* value is 0.558, indicating that 55.8% of the sample are state-owned firms and that most listed firms in China are state owned. In addition, institutional shareholders hold approximately 6% of a firm's shares on average, and listed firms have a financial leverage of approximately 47.8% and a return on assets of 3.2%. Firms audited by Big Four firms represent approximately 7.1% of the total sample.

Table 3 reports the correlation matrix for key variables such as return synchronicity, CFO status, and control variables. The correlation coefficient between return synchronicity and CFO status is 0.027, significant at the 1% level, which is in line with our theoretical prediction.

Table 2 Statistical Results

Variable	Obs	Mean	Std. Dev	Min	P25	Median	P75	Max
$Syn_{i,t}$	22315	-0.241	0.701	-2.245	-0.691	-0.212	0.246	1.350
$Status_{i,t-1}$	22315	0.364	0.270	0	0.143	0.333	0.600	0.875
$Size_{i,t-1}$	22315	21.810	1.296	19.180	20.910	21.640	22.500	26.330
$Leverage_{i,t-1}$	22315	0.478	0.210	0.047	0.321	0.483	0.632	0.973
$Q_{i,t-1}$	22315	2.389	1.719	0.892	1.331	1.832	2.758	11.590
$ROA_{i,t-1}$	22315	0.032	0.060	-0.239	0.011	0.032	0.060	0.193
$Moturn_{i,t-1}$	22315	-0.072	0.425	-1.708	-0.240	-0.016	0.152	0.860
$Instit_{i,t-1}$	22315	0.060	0.098	0	0.003	0.026	0.075	0.571
$Auditor_{i,t-1}$	22315	0.071	0.257	0	0	0	0	1
$Indep_{i,t-1}$	22315	0.357	0.060	0	0.333	0.333	0.375	0.556
$SOE_{i,t-1}$	22315	0.558	0.497	0	0	1	1	1
$Female_{i,t-1}$	22315	0.275	0.447	0	0	0	1	1
$Age_{i,t-1}$	22315	3.807	0.149	3.258	3.714	3.807	3.912	4.263
$Tenure_{i,t-1}$	22315	1.401	0.650	0	0.949	1.447	1.885	3.171
$Eback_{i,t-1}$	22315	0.533	0.499	0	0	1	1	1
$Wback_{i,t-1}$	22315	0.969	0.173	0	1	1	1	1
$Director_{i,t-1}$	22315	0.274	0.446	0	0	0	1	1
$Secretary_{i,t-1}$	22315	0.098	0.297	0	0	0	0	1
$Ipromotion_{i,t-1}$	22315	0.751	0.433	0	1	1	1	1

4.2 Regression Results

The regression results are shown in Table 4. In column (1), only year and industry fixed effects variables are controlled for. *Status* has a coefficient of 0.07, which is significant at the 1% level, indicating that firms with higher-status CFOs have higher stock return synchronicity. In columns (2) and (3), the control variables and CFO characteristics are added to the model. *Status* still shows a positive and significant coefficient. This result is in line with our hypothesis that high CFO status improves stock return synchronicity.

To examine CFO impact, this study further assesses the effect of a change in CFO status on stock return synchronicity. First, we choose firms in which the CFO's status has decreased as the test sample and firms in which the CFO's status has increased as the control group. We match the control group with the test group by year, industry, firm size, leverage, earnings capacity, and other variables using propensity score matching. Thus, we construct the following difference-in-differences model:

$$Syn_{i,t} = \beta_0 + \beta_1 StatusDecline_{i,t-1} + \beta_2 Decline_{i,t-1} + \beta_3 StatusDecline_{i,t-1} * Decline_{i,t-1} + \beta_4 Control_{i,t-1} + Year \& Ind + \varepsilon_{i,t} \quad (5)$$

In Equation (5), $StatusDecline_{i,t-1}$ is a dummy variable that takes the value of 1 if the CFO's status has decreased in year *t-1* and the value of 0 if the CFO's status has increased in

Table 3 Pearson and Spearman Correlation Matrix

	$Syn_{i,t}$	$Status_{i,t-1}$	$Size_{i,t-1}$	$Lev_{i,t-1}$	$Q_{i,t-1}$	$ROA_{i,t-1}$	$Moturn_{i,t-1}$	$Instit_{i,t-1}$	$Auditor_{i,t-1}$	$Indep_{i,t-1}$	$SOE_{i,t-1}$
$Syn_{i,t}$		0.025***	0.173***	-0.033***	-0.074***	0.081***	0.174***	0.036***	0.050***	0.012*	0.108***
$Status_{i,t-1}$	0.027***		0.051***	0.096***	-0.056***	-0.053***	0.025***	-0.006	0.058***	-0.021***	0.107***
$Size_{i,t-1}$	0.177***	0.059***		0.330***	-0.428***	0.062***	0.017**	0.306***	0.278***	0.111***	0.216***
$Lev_{i,t-1}$	-0.044***	0.099***	0.327***		-0.368***	-0.420***	0.081***	-0.01	0.059***	-0.008	0.207***
$Q_{i,t-1}$	-0.088***	-0.057***	-0.375***	-0.258***		0.317***	0.068***	0.098***	-0.147***	0.041***	-0.251***
$ROA_{i,t-1}$	0.130***	-0.046***	0.114***	-0.397***	0.161***		-0.080***	0.277***	0.059***	0.019***	-0.128***
$Moturn_{i,t-1}$	0.149***	0.039***	0.038***	0.120***	0.023***	-0.074***		-0.026***	0.004	-0.025***	0.084***
$Instit_{i,t-1}$	0.017**	0.012*	0.160***	0.005	0.019***	0.140***	0.005		0.063***	0.118***	0.016**
$Audit_{i,t-1}$	0.051***	0.058***	0.367***	0.066***	-0.104***	0.060***	0.012*	0.112***		0.015**	0.136***
$Indep_{i,t-1}$	0.019***	-0.025***	0.129***	-0.014**	0.074***	0.044***	-0.037***	0.028***	0.017**		-0.114***
$SOE_{i,t-1}$	0.109***	0.107***	0.232***	0.206***	-0.221***	-0.082***	0.115***	0.090***	0.136***	-0.128***	

Notes:

(1) The values that appear in the lower triangle are the Pearson correlation coefficients, and the values that appear in the upper triangle are the Spearman correlation coefficients.

(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

year *t-1*. *Decline* is the year in which the CFO's status changes. We predict that stock return synchronicity would decrease if the CFO's status decreases, so β_3 should be negative.

Table 4 CFO Status and Stock Return Synchronicity

	$Syn_{i,t}$		
	(1)	(2)	(3)
$Status_{i,t-1}$	0.070***	0.064***	0.072***
	(3.09)	(2.98)	(3.14)
$Size_{i,t-1}$		0.143***	0.142***
		(10.82)	(10.80)
$Leverage_{i,t-1}$		-0.507***	-0.507***
		(-10.97)	(-10.98)
$Q_{i,t-1}$		-0.037***	-0.037***
		(-7.89)	(-7.95)
$ROA_{i,t-1}$		0.974***	0.973***
		(10.13)	(10.12)
$Moturn_{i,t-1}$		0.042***	0.041***
		(3.78)	(3.70)
$Instit_{i,t-1}$		-0.408***	-0.409***
		(-4.95)	(-4.96)
$Auditor_{i,t-1}$		0.017	0.017
		(0.50)	(0.49)
$Indep_{i,t-1}$		0.081	0.080
		(0.74)	(0.73)
$SOE_{i,t-1}$		0.043	0.043
		(1.61)	(1.60)
$Female_{i,t-1}$			0.012
			(0.78)
$Age_{i,t-1}$			0.022
			(0.46)
$Tenure_{i,t-1}$			0.010
			(1.17)
$Eback_{i,t-1}$			-0.011
			(-0.62)
$Wback_{i,t-1}$			0.070**
			(2.05)
$Director_{i,t-1}$			-0.016
			(-1.03)
$Secretary_{i,t-1}$			-0.013
			(-0.67)
$Ipromotion_{i,t-1}$			-0.010
			(-0.63)
Year / Ind	Yes	Yes	Yes
Constant	-0.934***	-3.837***	-3.977***
	(-45.24)	(-12.82)	(-11.54)
N	22315	22315	22315
Within R^2	0.427	0.459	0.459

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

Table 5 CFO Status and Stock Return Synchronicity: Difference-in-Differences Analysis

	$Syn_{i,t}$
	(1)
$StatusDecline_{i,t-1}$	0.033
	(1.53)
$Decline_{i,t-1}$	0.046**
	(2.34)
$StatusDecline_{i,t-1}$*$Decline_{i,t-1}$	-0.070***
	(-3.10)
$Size_{i,t-1}$	0.151***
	(9.01)
$Leverage_{i,t-1}$	-0.517***
	(-8.88)
$Q_{i,t-1}$	-0.034***
	(-6.16)
$ROA_{i,t-1}$	1.096***
	(8.21)
$Moturn_{i,t-1}$	0.046***
	(2.89)
$Instit_{i,t-1}$	-0.387***
	(-4.02)
$Auditor_{i,t-1}$	0.006
	(0.13)
$Indep_{i,t-1}$	0.042
	(0.28)
$SOE_{i,t-1}$	0.071**
	(2.11)
$Female_{i,t-1}$	0.005
	(0.26)
$Age_{i,t-1}$	0.087
	(1.36)
$Tenure_{i,t-1}$	0.020*
	(1.74)
$Eback_{i,t-1}$	0.002
	(0.09)
$Wback_{i,t-1}$	0.106**
	(2.32)
$Director_{i,t-1}$	0.008
	(0.40)
$Secretary_{i,t-1}$	0.019
	(0.64)
$Ipromotion_{i,t-1}$	0.002
	(0.10)
Year / Ind	Yes
Constant	-4.577***
	(-10.37)
N	12232
Within R^2	0.477

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

The regression result from the difference-in-differences analysis is shown in Table 5 and indicates that the interaction term β_3 is -0.07, which is significant at the 1% level. This result is consistent with our prediction that stock return synchronicity would decrease after the CFO's status decreases.

Senior executives are the core human resources of a firm, and they are involved in major corporate decisions. In the TMT, the CEO and CFO are two pivotal roles in the firm. In particular, they are responsible for accounting policy decisions, and they are accountable for and must personally sign the annual financial report. In China, the CFO is usually constrained by the CEO (Qu *et al.*, 2012) and has less power and independence in a firm. However, what effect does a CEO with an accounting background have on the CFO's role? Previous studies show that a CEO with a financial background relies less on a CFO, hence reducing the incentives offered to a CFO (Gore *et al.*, 2011). Therefore, this paper predicts that a CEO with a financial background effectively reduces the CFO's status, indicating that the relationship between CFO status and stock return synchronicity is more substantial in firms where the CEO does not have a financial background.

The dummy variable *Backg* is set with the value of 1 denoting that the CEO has an accounting or a financial background. The regression results are shown in Table 6. In column (1), *Status* has a coefficient of 0.025, which is not significant at the 10% level. This result shows that a CEO with an accounting or a financial background is less reliant on the CFO, hence reducing the impact of the CFO's status on stock return synchronicity. In column (2), the coefficient of *Status* is 0.075, which is significant at the 1% level and thus consistent with our theoretical prediction. In column (3), the combination term *Status*Backg* has a coefficient of -0.111, which is significant at the 10% level and in line with the results of columns (1) and (2).

A CFO has a fiduciary duty to the board and shareholders and is also responsible to the CEO (Mian, 2001). This situation may give CEOs the power to pressure CFOs to manipulate the earnings (Feng *et al.*, 2011) or make a biased performance measure (Friedman, 2014). Thus, we further argue that a powerful CEO may weaken the positive relationship between stock return synchronicity and CFO status. CEO power is considered to originate from CEO duality (Hermalin and Weisbach, 1998). *Duality* is a dummy variable that equals 1 if a CEO chairs the board and 0 otherwise.

Table 7 reports the regression results. In column (1), CFO status has a coefficient of -0.016, which is not significant at the 10% level. This result shows that a CEO who also chairs the board possesses considerable power over the CFO, hence reducing the impact of CFO status on stock return synchronicity. In column (2), the coefficient status is 0.075, which is significant at the 1% level and consistent with the preceding theoretical prediction.

Table 6 CFO Status and Stock Return Synchronicity: Impact of the CEO's Financial Background

	$Syn_{i,t}$		
	$Backg = 1$	$Backg = 0$	
	(1)	(2)	(3)
$Status_{i,t-1}$	0.025	0.075***	0.081***
	(0.24)	(3.14)	(3.42)
$Backg_{i,t-1}$			0.102***
			(3.22)
$Status_{i,t-1}*Backg_{i,t-1}$			-0.111*
			(-1.70)
$Size_{i,t-1}$	0.155**	0.146***	0.143***
	(2.40)	(10.57)	(10.89)
$Leverage_{i,t-1}$	-0.299	-0.523***	-0.507***
	(-1.63)	(-10.88)	(-10.99)
$Q_{i,t-1}$	0.006	-0.037***	-0.037***
	(0.31)	(-7.79)	(-7.92)
$ROA_{i,t-1}$	0.690*	1.002***	0.970***
	(1.83)	(9.83)	(10.06)
$Moturn_{i,t-1}$	0.089**	0.038***	0.041***
	(2.03)	(3.31)	(3.70)
$Instit_{i,t-1}$	-0.725**	-0.425***	-0.412***
	(-2.53)	(-5.19)	(-5.00)
$Auditor_{i,t-1}$	0.033	0.024	0.016
	(0.17)	(0.68)	(0.46)
$Indep_{i,t-1}$	-0.087	0.079	0.074
	(-0.21)	(0.68)	(0.67)
$SOE_{i,t-1}$	0.185	0.044	0.041
	(1.33)	(1.60)	(1.56)
$Female_{i,t-1}$	-0.015	0.015	0.011
	(-0.24)	(0.93)	(0.75)
$Age_{i,t-1}$	0.152	0.004	0.023
	(0.63)	(0.09)	(0.49)
$Tenure_{i,t-1}$	-0.061*	0.013	0.011
	(-1.86)	(1.49)	(1.34)
$Eback_{i,t-1}$	-0.059	-0.002	-0.010
	(-0.83)	(-0.13)	(-0.58)
$Wback_{i,t-1}$	0.295*	0.060*	0.070**
	(1.90)	(1.75)	(2.09)
$Director_{i,t-1}$	-0.006	-0.007	-0.016
	(-0.08)	(-0.44)	(-1.03)
$Secretary_{i,t-1}$	-0.093	-0.007	-0.013
	(-1.15)	(-0.35)	(-0.64)
$Ipromotion_{i,t-1}$	0.013	-0.017	-0.011
	(0.18)	(-1.01)	(-0.67)
Year / Ind	Yes	Yes	Yes
Constant	-5.060***	-3.991***	-4.017***
	(-3.06)	(-11.08)	(-11.66)
N	1639	20676	22315
Within R^2	0.555	0.457	0.459

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

Table 7 CFO Status and Stock Return Synchronicity: Impact of CEO Power

	$Syn_{i,t}$	
	Duality = 1	*Duality* = 0
	(1)	(2)
$Status_{i,t-1}$	-0.016	0.075***
	(-0.25)	(2.96)
$Size_{i,t-1}$	0.184***	0.148***
	(5.09)	(10.20)
$Leverage_{i,t-1}$	-0.434***	-0.531***
	(-3.33)	(-10.45)
$Q_{i,t-1}$	-0.002	-0.043***
	(-0.20)	(-8.18)
$ROA_{i,t-1}$	0.736***	0.983***
	(2.86)	(9.21)
$Moturn_{i,t-1}$	0.082***	0.035***
	(3.32)	(2.71)
$Instit_{i,t-1}$	-0.509**	-0.378***
	(-2.12)	(-4.23)
$Auditor_{i,t-1}$	-0.039	0.016
	(-0.46)	(0.44)
$Indep_{i,t-1}$	0.472*	-0.044
	(1.76)	(-0.36)
$SOE_{i,t-1}$	-0.116	0.048
	(-1.28)	(1.63)
$Female_{i,t-1}$	-0.022	0.026
	(-0.49)	(1.57)
$Age_{i,t-1}$	-0.086	0.026
	(-0.54)	(0.50)
$Tenure_{i,t-1}$	0.017	0.004
	(0.68)	(0.40)
$Eback_{i,t-1}$	0.000	-0.013
	(0.01)	(-0.64)
$Wback_{i,t-1}$	0.196*	0.061*
	(1.95)	(1.67)
$Director_{i,t-1}$	-0.005	-0.010
	(-0.13)	(-0.54)
$Secretary_{i,t-1}$	0.078	-0.024
	(1.49)	(-1.09)
$Ipromotion_{i,t-1}$	-0.052	-0.008
	(-1.04)	(-0.45)
Year / Ind	Yes	Yes
Constant	-4.688***	-4.068***
	(-4.39)	(-10.75)
N	3715	18600
Within R^2	0.524	0.454

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** denote that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

Previous studies have shown that formal regulation has a critical effect on the behaviour of firms, but informal regulation also impacts corporate governance (McGuire *et al.*, 2011; Du, 2015). To thoroughly understand the economic consequences of informal regulation, we propose two competing hypotheses on how informal regulation (Confucian culture) in China may affect the role of CFO status. First, the *strengthening effect* hypothesis predicts that the impact of a CFO's status is greatest in areas where the rank concept is well embraced. In China, Confucianism has particularly predominated for a long period and offers "three cardinal guides and five constant virtues" to govern society. The three cardinal guides suggest that juniors should obey seniors absolutely and that leaders should obey authorities. This culture is a type of rigidly stratified "*Lizhi*" culture ("礼治"). The degree to which people accept these rules is high in areas where the concept of rank is strong. We expect that the relationship between CFO status and stock return synchronicity is strong in areas with a strong Confucian culture.

Second, an alternative hypothesis that we advance predicts an opposite relationship. In particular, the Confucian culture reduces the impact of CFO status on return synchronicity. This condition is referred to as the *substitution effect*. We argue that Confucianism may have a direct impact on stock return synchronicity. Chen *et al.* (2013) study the local religious tradition of areas where listed firms are located and find that corporate misconduct is minimal in areas with a strong religious culture. Moreover, this culture curbs unethical earnings management behaviour by firms. This phenomenon indicates that listed firms located in areas with strong religious traditions have high-quality accounting information, leading to high stock return synchronicity. Therefore, the Confucianism culture substitutes for CFO status, thereby minimising its impact.

To distinguish between the two hypotheses, we use the number of Confucian temples in an area to measure the strength of the Confucian culture. We search for Confucian temple names from the list of key protected cultural relics in China. A total of 86 Confucian temples are distributed throughout 22 areas in China. This study uses the dummy variable *Confucianism* with a value of 1 to denote the presence of at least one identified Confucian temple. Table 8 shows the regression results. In column (1), the coefficient of *status* is 0.052, which is significant at the 10% level. In column (2), *status* has a coefficient of 0.117, which is significant at the 1% level. These results indicate that CFO status has minimal impact in areas with a strong Confucianism culture. Thus, the empirical evidence supports the substitution effect instead of the strengthening effect hypothesis.

This paper theorises that firms with higher-status CFOs have higher-quality accounting information, which leads to higher stock return synchronicity. To examine this mediation mechanism, we use two variables to measure accounting information quality: (1) *C_Score* measures accounting conservatism and is calculated following the methodology of Khan and Watts (2009); (2) *Violation*, which measures regulatory noncompliance by firms, is set as a

Table 8 CFO Status and Stock Return Synchronicity: Impact of Confucianism Culture

	$Syn_{i,t}$		
	Confucianism = 1	*Confucianism* = 0	
	(1)	(2)	(3)
$Status_{i,t-1}$	0.052*	0.117***	0.105***
	(1.76)	(3.26)	(3.04)
$Confucianism_{i,t-1}$			-0.118
			(-1.32)
$Status_{i,t-1}$*$Confucianism_{i,t-1}$			-0.055
			(-1.25)
$Size_{i,t-1}$	0.151***	0.131***	0.142***
	(9.66)	(5.62)	(10.77)
$Leverage_{i,t-1}$	-0.579***	-0.405***	-0.504***
	(-10.24)	(-5.47)	(-10.85)
$Q_{i,t-1}$	-0.035***	-0.042***	-0.037***
	(-5.86)	(-5.41)	(-7.95)
$ROA_{i,t-1}$	1.026***	0.830***	0.975***
	(8.33)	(5.37)	(10.13)
$Moturn_{i,t-1}$	0.039***	0.040**	0.041***
	(2.74)	(2.27)	(3.68)
$Instit_{i,t-1}$	-0.431***	-0.388***	-0.413***
	(-4.45)	(-2.67)	(-4.97)
$Auditor_{i,t-1}$	0.070*	-0.056	0.018
	(1.66)	(-0.98)	(0.53)
$Indep_{i,t-1}$	0.163	-0.138	0.079
	(1.20)	(-0.73)	(0.71)
$SOE_{i,t-1}$	0.021	0.095**	0.043
	(0.65)	(2.13)	(1.62)
$Female_{i,t-1}$	0.027	0.003	0.011
	(1.36)	(0.11)	(0.74)
$Age_{i,t-1}$	0.020	0.069	0.027
	(0.33)	(0.90)	(0.57)
$Tenure_{i,t-1}$	0.012	0.011	0.009
	(1.11)	(0.79)	(1.14)
$Eback_{i,t-1}$	-0.019	-0.006	-0.012
	(-0.83)	(-0.21)	(-0.66)
$Wback_{i,t-1}$	0.103**	0.026	0.069**
	(2.51)	(0.45)	(2.02)
$Director_{i,t-1}$	0.007	-0.046*	-0.017
	(0.32)	(-1.89)	(-1.10)
$Secretary_{i,t-1}$	0.011	-0.061*	-0.014
	(0.46)	(-1.83)	(-0.72)
$Ipromotion_{i,t-1}$	-0.014	0.009	-0.010
	(-0.67)	(0.39)	(-0.61)
Year / Ind	Yes	Yes	Yes
Constant	-4.183***	-3.869***	-3.911***
	(-10.08)	(-6.56)	(-11.18)
N	13634	8681	22315
Within R^2	0.464	0.459	0.459

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

dummy variable, with the value of 1 denoting that a firm has been disciplined by the CSRC. Firms with a higher *C_Score* usually have higher-quality accounting information. Firms with higher-quality accounting information are likely to be disciplined by the CSRC.

Table 9 CFO Status and Stock Return Synchronicity: Channel Test One

	$C\_Score_{i,t-1}$	$Violation_{i,t-1}$
	(1)	(2)
$Status_{i,t-1}$	0.010***	-0.026**
	(2.92)	(-2.02)
$Size_{i,t-1}$	0.020***	-0.003
	(9.11)	(-0.44)
$Leverage_{i,t-1}$	0.032***	0.076***
	(4.26)	(2.67)
$Q_{i,t-1}$	-0.001	0.005*
	(-1.64)	(1.93)
$ROA_{i,t-1}$	-0.111***	-0.225***
	(-4.88)	(-3.33)
$Moturn_{i,t-1}$	-0.013***	0.013*
	(-8.35)	(1.71)
$Instit_{i,t-1}$	-0.055***	0.003
	(-4.24)	(0.07)
$Auditor_{i,t-1}$	0.001	0.017
	(0.17)	(1.05)
$Indep_{i,t-1}$	0.049**	-0.114*
	(2.55)	(-1.92)
$SOE_{i,t-1}$	0.021***	-0.022
	(4.90)	(-1.44)
$Female_{i,t-1}$	-0.000	0.011
	(-0.06)	(1.23)
$Age_{i,t-1}$	-0.008	0.019
	(-1.04)	(0.76)
$Tenure_{i,t-1}$	0.002	-0.011**
	(1.61)	(-2.35)
$Eback_{i,t-1}$	0.002	0.020*
	(0.70)	(1.93)
$Wback_{i,t-1}$	0.011**	0.027
	(2.34)	(1.41)
$Director_{i,t-1}$	-0.002	0.002
	(-0.89)	(0.29)
$Secretary_{i,t-1}$	-0.001	0.028**
	(-0.51)	(2.50)
$Ipromotion_{i,t-1}$	-0.004**	0.005
	(-2.11)	(0.57)
Year / Ind	Yes	Yes
Constant	-0.434***	0.142
	(-7.86)	(0.83)
N	22307	22315
Within R^2	0.537	0.035

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

Table 10 CFO Status and Stock Return Synchronicity: Channel Test Two

	$Syn_{i,t}$			
	C_Score > med	*C_Score < med*	*Violation = 0*	*Violation = 1*
	(1)	(2)	(3)	(4)
$Status_{i,t-1}$	0.100***	0.037	0.073***	-0.014
	(3.09)	(1.18)	(3.02)	(-0.15)
$Size_{i,t-1}$	0.171***	0.101***	0.154***	0.079*
	(9.26)	(5.84)	(11.00)	(1.76)
$Leverage_{i,t-1}$	-0.609***	-0.347***	-0.498***	-0.480***
	(-8.75)	(-5.72)	(-9.83)	(-3.41)
$Q_{i,t-1}$	-0.056***	-0.043***	-0.038***	-0.031*
	(-5.79)	(-7.63)	(-7.59)	(-1.88)
$ROA_{i,t-1}$	1.113***	0.892***	0.895***	1.255***
	(7.75)	(7.05)	(8.73)	(4.31)
$Moturn_{i,t-1}$	0.070***	0.029**	0.042***	0.078
	(3.28)	(2.00)	(3.59)	(1.38)
$Instit_{i,t-1}$	-0.415***	-0.373***	-0.402***	-0.916**
	(-3.59)	(-3.60)	(-4.59)	(-2.46)
$Auditor_{i,t-1}$	-0.012	0.079*	0.040	-0.223
	(-0.25)	(1.70)	(1.19)	(-1.44)
$Indep_{i,t-1}$	0.040	0.033	0.100	-0.925**
	(0.26)	(0.22)	(0.86)	(-2.12)
$SOE_{i,t-1}$	0.042	-0.005	0.039	0.107
	(1.22)	(-0.13)	(1.43)	(1.23)
$Female_{i,t-1}$	0.032	-0.023	0.008	0.108
	(1.61)	(-1.06)	(0.52)	(1.61)
$Age_{i,t-1}$	0.016	0.063	0.018	-0.344*
	(0.24)	(0.90)	(0.35)	(-1.75)
$Tenure_{i,t-1}$	0.003	0.007	0.009	0.071*
	(0.27)	(0.58)	(1.02)	(1.86)
$Eback_{i,t-1}$	0.030	-0.029	-0.011	-0.046
	(1.22)	(-1.22)	(-0.59)	(-0.69)
$Wback_{i,t-1}$	0.036	0.087*	0.094***	-0.195
	(0.88)	(1.73)	(2.66)	(-1.17)
$Director_{i,t-1}$	-0.021	0.006	-0.021	0.043
	(-0.95)	(0.29)	(-1.29)	(0.61)
$Secretary_{i,t-1}$	-0.009	-0.025	-0.008	-0.168
	(-0.31)	(-0.92)	(-0.38)	(-1.60)
$Ipromotion_{i,t-1}$	-0.060***	0.046**	-0.011	0.039
	(-2.63)	(2.13)	(-0.62)	(0.67)
Year / Ind	Yes	Yes	Yes	Yes
Constant	-4.655***	-3.177***	-4.257***	-0.669
	(-9.47)	(-6.73)	(-11.63)	(-0.53)
N	11162	11153	20104	2211
Within R^2	0.237	0.380	0.454	0.579

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** denote that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

Table 9 presents the results of this examination. In column (1), *Status* has a coefficient of 0.01, which is significant at the 1% level, indicating that higher CFO status leads to higher accounting conservatism. In column (2), the coefficient of *Status* is -0.026, which is significant at the 5% level, illustrating that firms with higher status CFOs are less likely to be the subject of disciplinary action. The results are consistent with all predictions and show that firms with higher-status CFOs have higher-quality accounting information.

To provide an improved analysis of the financial report quality channel, this study conducts a subsample analysis to determine if the results only hold for firms with high earnings quality. Table 10 shows the regression results. In column (1), *Status* has a coefficient of 0.100, which is significant at the 1% level and consistent with our theoretical prediction. In column (2), *Status* has a coefficient of 0.037, which is not significant at the 10% level. In column (3), the CFO status has a coefficient of 0.073, which is significant at the 1% level. *Status* in the final column has a coefficient of -0.014. These results weakly indicate that the impact of CFO status is strong in subsamples with high earnings quality. Therefore, we can infer that financial reporting quality is the possible channel.

Dasgupta *et al.* (2010) provide the three determinants of return synchronicity. An increase in stock return synchronicity can come from an increase in market-wide return variation, a decrease in idiosyncratic return variation, and an increase in beta. Only the idiosyncratic return variation and beta components affect stock return synchronicity at the firm level. If CFO status affects return synchronicity through the quality of accounting information, then it should only affect idiosyncratic return volatility and not the beta. Accordingly, we predict a negative association between CFO status and idiosyncratic volatility. We follow Chen *et al.* (2012) and adjust our measure of idiosyncratic return volatility for the Fama-French three-factor risks of market, SMB (*Size*), and HML (*Value*).

Table 11 shows the regression results. In column (1), *Status* has a coefficient of -0.001, which is significant at the 1% level, indicating that high CFO status causes low idiosyncratic return volatility. In column (2), the coefficient of *Status* is 0.003 and does not pass the significance test at the 10% level, illustrating that *Status* does not affect beta. The results meet the prediction that firms with high-status CFOs have low idiosyncratic return volatility.

4.3 Robustness Checks

4.3.1 Alternative measure of stock return synchronicity

To verify the robustness of our conclusions, we recalculate stock return synchronicity using the methodology of Durnev *et al.* (2003) and Huang and Guo (2014). The calculation model is shown in equations (6) and (7).

$$R_{i,t} = \alpha_0 + \alpha_1 MarketR_t + \alpha_2 IndR_{i,t} + \varepsilon_{i,t} \tag{6}$$

$$Synweek = \ln(R_i^2 / 1 - R_i^2) \tag{7}$$

Table 11 CFO Status and Idiosyncratic Return Volatility / Beta

	$Volatility_{i,t}$	$Beta_{i,t}$
	(1)	(2)
$Status_{i,t-1}$	-0.001***	0.003
	(-4.09)	(0.25)
$Size_{i,t-1}$	-0.001***	0.032***
	(-10.55)	(5.30)
$Leverage_{i,t-1}$	0.002***	-0.146***
	(6.39)	(-6.87)
$Q_{i,t-1}$	0.000	-0.011***
	(0.88)	(-4.68)
$ROA_{i,t-1}$	-0.004***	0.293***
	(-5.61)	(6.89)
$Moturn_{i,t-1}$	0.001***	0.039***
	(6.94)	(7.14)
$Instit_{i,t-1}$	0.002***	-0.119***
	(5.07)	(-3.18)
$Auditor_{i,t-1}$	-0.000	0.005
	(-0.75)	(0.32)
$Indep_{i,t-1}$	-0.001	-0.040
	(-1.48)	(-0.87)
$SOE_{i,t-1}$	0.000	0.020*
	(0.40)	(1.90)
$Female_{i,t-1}$	-0.000	0.005
	(-0.93)	(0.76)
$Age_{i,t-1}$	0.000	0.007
	(0.72)	(0.32)
$Tenure_{i,t-1}$	-0.000***	-0.005
	(-2.99)	(-1.22)
$Eback_{i,t-1}$	0.000***	0.016*
	(3.04)	(1.94)
$Wback_{i,t-1}$	-0.000**	0.022
	(-2.04)	(1.62)
$Director_{i,t-1}$	0.000	-0.002
	(0.81)	(-0.26)
$Secretary_{i,t-1}$	-0.000	-0.001
	(-0.61)	(-0.14)
$Ipromotion_{i,t-1}$	-0.000	-0.012
	(-0.80)	(-1.62)
Year / Ind	Yes	Yes
Constant	0.034***	0.692***
	(15.03)	(4.45)
N	22315	20858
Within R^2	0.540	0.237

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** denote that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

In the equations, $R_{i,t}$ is the stock return of firm i in week t; $MarketR_t$ is the market return in week t; $IndR_{i,t}$ is the industry stock return in week t; and *Synweek* is the measurement for stock return synchronicity.

Table 12 CFO Status and Stock Return Synchronicity: Alternative Measure of Stock Return Synchronicity

	$Synweek_{i,t}$	$Syn2_{i,t}$	$Synweek2_{i,t}$
	(1)	(2)	(3)
$Status_{i,t-1}$	0.103***	0.059**	0.106***
	(3.44)	(2.43)	(3.16)
$Size_{i,t-1}$	0.135***	0.098***	0.096***
	(8.02)	(7.36)	(5.26)
$Leverage_{i,t-1}$	-0.430***	-0.516***	-0.446***
	(-7.31)	(-10.93)	(-6.89)
$Q_{i,t-1}$	-0.023***	-0.049***	-0.034***
	(-3.77)	(-9.62)	(-4.72)
$ROA_{i,t-1}$	0.592***	0.711***	0.285**
	(4.97)	(7.01)	(2.12)
$Moturn_{i,t-1}$	0.048***	0.027**	0.045***
	(3.17)	(2.37)	(2.71)
$Institt_{i,t-1}$	-0.323***	-0.582***	-0.600***
	(-3.36)	(-6.54)	(-5.31)
$Auditor_{i,t-1}$	0.020	0.031	0.050
	(0.45)	(0.81)	(0.92)
$Indep_{i,t-1}$	0.350**	0.042	0.316**
	(2.45)	(0.36)	(1.97)
$SOE_{i,t-1}$	0.066*	0.041	0.073*
	(1.95)	(1.50)	(1.92)
$Female_{i,t-1}$	-0.002	0.016	0.011
	(-0.12)	(1.01)	(0.48)
$Age_{i,t-1}$	0.029	0.020	0.053
	(0.47)	(0.40)	(0.78)
$Tenure_{i,t-1}$	0.003	0.010	0.003
	(0.23)	(1.17)	(0.24)
$Eback_{i,t-1}$	-0.042*	-0.012	-0.042*
	(-1.85)	(-0.67)	(-1.69)
$Wback_{i,t-1}$	0.052	0.054	0.044
	(1.18)	(1.48)	(0.84)
$Director_{i,t-1}$	-0.025	-0.010	-0.018
	(-1.25)	(-0.60)	(-0.82)
$Secretary_{i,t-1}$	0.006	-0.014	-0.005
	(0.25)	(-0.65)	(-0.17)
$Ipromotion_{i,t-1}$	-0.002	-0.008	-0.003
	(-0.10)	(-0.50)	(-0.15)
Year / Ind	Yes	Yes	Yes
Constant	-3.894***	-3.094***	-3.361***
	(-8.80)	(-8.82)	(-6.93)
N	22315	22315	22315
Within R^2	0.295	0.468	0.306

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

The results of this robustness check are shown in column (1) of Table 12. As indicated in the table, *Status* has a coefficient of 0.103, which is significant at the 1% level. This result is consistent with prior results.

Next, following Morck *et al.* (2000), Zhu *et al.* (2007), and He *et al.* (2018), we use the R-squared of Equation 8 to measure stock return synchronicity.

$$ret_{i,t} = \alpha_0 + \alpha_1 ret_{m,t} + \varepsilon_{i,t} \tag{8}$$

In Equation (8), $ret_{i,t}$ and $ret_{m,t}$ are the stock returns of firm i on day t and market returns on day t, respectively. We use the natural logarithm of the calculated R-squared, which is denoted as *Syn2*. We also use $ret_{i,t}$ and $ret_{m,t}$ to replace the variables in Equation (6) and use *Synweek2* to denote stock return synchronicity.

Columns (2) and (3) of Table 12 show the regression results. In column (2), *Status* has a coefficient of 0.059, which is significant at the 5% level, and in column (3), *Status* has a coefficient of 0.106, which is significant at the 1% level. All the results are consistent with prior results, verifying the robustness of our results.

4.3.2 Endogenous problems

Because endogenous problems may exist in our regression, we use two methodologies to alleviate the potential impact. First, we use the average value of CFO status at other firms in the same industry as the instrumental variable (*IndStatus*) and conduct a 2SLS stage regression. Second, because the CFO's rank may be affected by the CFO's personal characteristics, we conduct the regression model shown in Equation (9) and use the regression residual *ResStatus* as the alternative measure of CFO status.

$$Status_{i,t-1} = \beta_0 + \beta_1 CFOC_{i,t-1} + \varepsilon_{i,t-1} \tag{9}$$

In Equation (9), $Status_{i,t-1}$ is the CFO status in year *t-1* and $CFOC_{i,t-1}$ is the CFO characteristics in year *t-1*, which can be seen in Table 1. The regression residual *ResStatus* is used as the independent variable in Equation (10).

$$Syn_{i,t} = \beta_0 + \beta_1 ResStatus_{i,t-1} + \beta_2 ControlV_{i,t-1} + Year \,\&\, Ind + \varepsilon_{i,t} \tag{10}$$

In Equation (10), $Syn_{i,t}$ is the measurement for stock return synchronicity; $ControlV_{i,t-1}$ denotes the control variables; and *Year* and *Ind* are the dummy variables for the year and industry, as seen in Table 1.

The regression results are presented in Table 13. Columns (1) and (2) are the first-stage and second-stage regression results of the instrumental regression. In column (1), the coefficient of *IndStatus* is positive and significant at the 1% level, indicating that CFO status has a positive correlation with the average CFO status of other firms in same industry. In

Table 13 CFO Status and Stock Return Synchronicity: Addressing the Endogenous Problems

	$Status_{i,t-1}$	$Syn_{i,t}$	$Status_{i,t-1}$	$Syn_{i,t}$
	(1)	(2)	(3)	(4)
$Status_{i,t-1}$ ($ResStatus_{i,t-1}$)		0.452**		0.072***
		(2.47)		(3.16)
$Size_{i,t-1}$	0.008**	0.139***		0.144***
	(2.44)	(15.69)		(10.91)
$Leverage_{i,t-1}$	0.009	-0.512***		-0.502***
	(0.67)	(-15.16)		(-10.88)
$Q_{i,t-1}$	-0.002*	-0.036***		-0.037***
	(-1.78)	(-10.25)		(-7.83)
$ROA_{i,t-1}$	-0.027	0.981***		0.971***
	(-0.88)	(12.52)		(10.12)
$Moturn_{i,t-1}$	0.000	0.041***		-0.413***
	(-0.03)	(3.68)		(-5.00)
$Instit_{i,t-1}$	0.056**	-0.428***		0.017
	(2.40)	(-7.08)		(0.50)
$Auditor_{i,t-1}$	0.010	0.013		0.074
	(1.01)	(0.50)		(0.67)
$Indep_{i,t-1}$	0.110***	0.038		0.043
	(3.30)	(0.43)		(1.63)
$SOE_{i,t-1}$	0.023***	0.033*		0.072***
	(3.12)	(1.70)		(3.16)
$Female_{i,t-1}$	-0.028***	0.023*	-0.032***	
	(-6.04)	(1.78)	(-4.27)	
$Age_{i,t-1}$	0.172***	-0.045	0.166***	
	(12.12)	(-0.91)	(7.09)	
$Tenure_{i,t-1}$	0.021***	0.002	0.016***	
	(7.72)	(0.22)	(3.35)	
$Eback_{i,t-1}$	0.013**	-0.015	0.030***	
	(2.52)	(-1.11)	(4.22)	
$Wback_{i,t-1}$	-0.069***	0.096***	-0.077***	
	(-7.20)	(3.44)	(-4.72)	
$Director_{i,t-1}$	0.195***	-0.091**	0.221***	
	(44.90)	(-2.41)	(28.51)	
$Secretary_{i,t-1}$	-0.017***	-0.007	-0.037***	
	(-2.61)	(-0.39)	(-3.03)	
$Ipromotion_{i,t-1}$	0.006	-0.012	0.014*	
	(1.18)	(-1.01)	(1.74)	
$IndStatus_{i,t-1}$	0.663***			
	(14.13)			
Year / Ind	Yes	Yes	Yes	Yes
Constant	-0.798***	-3.752***	-0.290***	-3.849***
	(-8.46)	(-14.18)	(-3.27)	(-12.87)
N	22315	22315	22315	22315
Within R^2	0.140	0.448	0.164	0.458

Notes:
(1) t values in parentheses are adjusted by clustering at the firm level.
(2) *, **, and *** indicate that correlation coefficients are significant at the 10%, 5%, and 1% levels, respectively.

column (2), *IndStatus* has a coefficient of 0.452, which is significant at the 5% level, indicating that CFO status still promotes stock return synchronicity when we use instrumental regressions. Column (3) reports the result of Equation (9). The results show that CFO status has a positive relationship with a CFO's age, tenure, educational background, duality of director role, and internal promotion but a negative relationship with a CFO's gender, work background, and duality of board secretary role. Column (4) reports the result of Equation (10) and shows that *ResStatus* has a positive and significant coefficient. Thus, our conclusions remain robust after addressing the endogenous problems.

V. Conclusions

Previous studies have examined the impact of CFOs. In a society that embraces the "inferiors obey superiors" principle, how does a CFO's status within the TMT affect a firm's behaviours, and what is the economic outcome of this impact? This is an important issue, and this paper analyses the impact of CFO status on stock return synchronicity through theoretical and empirical testing. We explore the possible channels and moderating factors of this impact and reach the following conclusions: (1) CFO status has a positive relationship with stock return synchronicity, indicating that higher CFO status promotes stock return synchronicity; (2) according to the status change analysis, a decrease in CFO status leads to less stock return synchronicity; (3) as shown by the results of subsample tests on the financial background of CEOs, the beneficial effect of CFO status on stock return synchronicity only exists in firms that do not have a CEO with a financial background; and (4) through the channel test, we find that CFO status impacts stock return synchronicity by improving the quality of the accounting information.

Our conclusions can benefit the managerial experience of listed firms in China. In the context of financial regulation, firms need to strengthen the status of their CFOs with respect to monitoring and management activities so that they can better execute their responsibilities. This paper provides a new perspective in the area of CFO impact on the behaviour of firms. In addition, this paper provides further evidence of the factors impacting stock return synchronicity and new evidence relevant to corporate governance in countries with transition economies. Our research does have some limitations, as we do not analyse the possible negative effects of having a high-status CFO, which is an important area for future research.

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