

The impact of TMT financial background on firm default risk: Evidence from China

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Abstract

The attributes of the top management team (TMT) significantly influence a company's strategic direction, policies, and overall performance. Based on the assessment of 3,027 Class A listed companies in China from 2007 to 2022, with a total of 24,737 firm-year observations, this research reveals that the financial background of TMT can effectively mitigate firm default risk, as measured by market-based default probabilities and Altman's Z-score metrics. Additionally, it uncovers that amidst heightened industry competition and robust marketization, the impact on corporate default risk is attenuated. Employing 2SLS regression for endogeneity analysis enhances the rigor of this study. In conclusion, this study contributes valuable insights to the body of knowledge concerning managerial characteristics and the determinants of corporate default risk. The findings underscore the strategic management of TMT traits as a proactive measure to mitigate corporate risks, providing practical recommendations for executives and investors.

Keywords: bankruptcy; credit; industry competition; marketization level; top management team