Empirical Study on the Impact of QFII Stock Ownership on Enterprise Performance

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Abstract: Based on the data of A-share listed companies in China from 2006 to 2018, this paper uses a fixed-effect model to analyze the relationship between QFII shareholding and corporate performance from the perspectives of QFII shareholding ratio and QFII shareholding and the first shareholder shareholding ratio. The empirical results show that the increase in QFII shareholding significantly enhances corporate performance, that is, the proportion of qualified foreign investment institutions increases, and corporate performance is significantly improved. The increase in the number of shares held by QFII and the number of shares held by the first shareholder has contributed to the performance of the company. Therefore, increasing the number of qualified foreign investment institutions and gradually relaxing the control of capital projects will help improve corporate performance and thus promote the healthy development of China's capital market.

1. Introduction

The Qualified Foreign Institutional Investor System (QFII) is the earliest and most important institutional arrangement for China's capital market to open to the outside world, and is one of the main channels for foreign investors to invest in domestic financial markets. From 2016 to 2018, the State Administration of Foreign Exchange carried out major reforms on the foreign exchange management of the QFII system, which greatly facilitated the investment of foreign investors in the domestic financial market through QFII channels. As of September 2018, the State Administration of Foreign Exchange has approved a total of 316 qualified foreign investors for a total investment of 100.257 billion US dollars. In order to meet the needs of overseas investors to expand their investment in China's capital market, with the approval of the State Council, the total amount of qualified foreign institutional investors (QFII) increased from $150 billion to $300 billion. Table 1 shows the investment quota and number of overseas investors in China. So how have foreign institutional investors affected the performance of Listed Companies in China in these years? This paper demonstrates the impact of QFII on enterprise performance from both theoretical and empirical aspects, hoping to help deepen the opening up. The investment quota and number of qualified overseas investment institutions are shown in Table 1.

Table 1 Investment quota and number of overseas investment institutions

Time	2006	2007	2008	2009	2010	2011
Investment quota ($100 million)	90.95	100.45	134.43	165.70	197.20	216.40
Number of Institutions (Home)	334	219	160	224	261	172
Time	2012	2013	2014	2015	2016	2017
Investment quota ($100 million)	374.43	497.01	669.23	810.70	873.10	971.59
Number of Institutions (Home)	238	342	352	296	399	379

Data source: Wind

2. Theoretical Analysis and Research Hypothesis

2.1 QFII and Enterprise Performance

Overseas institutional investors, with their independence and professionalism, contribute to

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improving corporate performance (Gillan and Starks, 2003) [1]. Compared with small and medium-sized shareholders, QFII has lower supervision cost, and its earnings are more affected by company performance fluctuations (Levian, 2008) [2]. In order to maximize its own interests, QFII will improve corporate performance by actively participating in the governance of listed companies, exerting influence on the company's business decisions and directly restricting the behavior of managers. The higher the proportion of shareholders, the stronger the correlation between their own interests and the performance of listed companies. Institutional investors represented by QFII usually take a positive attitude of shareholders to participate in corporate governance, improve corporate performance, and enjoy the additional benefits of improving corporate performance (Li Yingzhao and Guojuan, 2011; Yang Heli and Zhou Li, 2012) [3,4]. The greater the ratio of QFII holdings to the largest shareholder, the more it can constrain its decision-making. When major shareholders make improper decisions, QFII can effectively check and balance the largest shareholder. As a result, major shareholders have done their due diligence, greatly improving the efficiency of corporate governance and promoting the company's performance. (Fang Jinsong and Xu Xiaowei, 2016) [5]. The introduction of QFII is bound to have a certain impact on the governance of listed companies in China, and lead to changes in the company's management decisions, resulting in corresponding changes in company performance and market value. The active involvement of institutional investors will help improve corporate governance and improve corporate governance. Further attracting the participation of other institutional investors is a benign and interactive relationship. QFII has played a positive role in improving the performance of listed companies. There is a positive correlation between the holdings of institutional investors with the right to speak and the performance of listed companies.

This paper believes that the introduction of QFII helps to discover and enhance the company's value, improve the company's financial status, and thus improve the profitability of listed companies, thereby improving the company's performance. Equity decentralization among institutional investors and foreign institutional investors'shareholding help to strengthen the checks and balances between shareholders, especially between major shareholders and other shareholders. Preventing the tunneling behavior of major shareholders has a certain effect on improving the performance of listed companies. Therefore, this paper puts forward the following assumptions:

H1a: QFII shareholding is conducive to improving corporate performance.

H1b: Increasing the proportion of QFII share holdings to the number of first shareholders is conducive to improving corporate performance.

2.2 Research design

2.2.1 Data Source and Sample Selection

This paper takes Chinese A-share listed companies from 2006 to 2018 as the research object. The data used include the quarterly stock ownership information of overseas investment institutions, basic information of listed companies, transaction data, financial data and so on. Among them, the quarterly ownership information of foreign institutional investors comes from the Wind financial database, and other data comes from the CSMAR database. In this paper, the sample is screened or processed as follows: (1) In order to make the sample consistent, this paper selects 507 listed companies from companies listed before 2005 and those held by overseas investment institutions after 2006. (2) Delete the annual sample of financial companies. (3) Delete ST, ST* companies and samples with missing major variables. (4) In order to avoid the interference of outliers on the results of empirical analysis, this paper performs a tail-finishing process on all continuous variables at the level of 1%, and finally obtains 25,857 company quarterly observations.

2.2.2 Variable design and model setting

2.2.2.1 Explained variable

This article uses Earnings Per Share (EPS) to measure business performance. Earnings per share, used to represent the after-tax profit per share of common stock. The higher the EPS, the stronger the company's profitability.

2.2.2.2 Explanatory variables

Refer to the variables used by Li Lei, Han Liyan (2013) [6] and Tong Mingrong, Wang Zongjun (2018) [7] when studying institutional investors. In this paper, we use QFII, the ratio of QFII to the first shareholder (CQFII) as the measurement index of overseas investment institutions.

2.2.2.3 Other related control variables

Drawing on existing research, this paper believes that the following variables will also affect the performance of listed companies and default risks: the proportion of domestic institutional investors (DFII), the natural logarithm of the company's total assets at the end of the year (LNS). Asset-liability ratio (LEV), total asset growth rate (GROWTH), current ratio (QR), total asset turnover (TT), this article controls the year (Year) and industry (Industry). The variables and their definitions are detailed in Table 2.

Table 2 Variable definition

Variable level	Variable	Meaning	Variable calculation and explanation
Explained variable	EPS	Earnings per share	After-tax profits/total equity
Explanatory variables	QFII	QFII shareholding ratio	QFII Stock Holdings/Total Stocks
	CQFII	Checks and balances	QFII Holdings/First Major Shareholders Holdings
Control variable	DFII	DFII Shareholding Proportion	DFII Stock Holdings/Total Stocks
	LEV	Asset-liability ratio	Total liabilities/assets
	LNS	Enterprise size	Total assets take natural logarithm
	GROWTH	Growth Ability	Increase rate of business income
	QR	Liquidity ratio	Current assets/current liabilities
	TT	Total asset turnover rate	Net operating income/total average assets
	Year	Annual effect	Virtual variable, corresponding to a year value 1, otherwise value 0
	Industry	Industry effect	Virtual variable, corresponding to a year value 1, otherwise value 0

2.2.2.4 Model setting

In view of the above hypothesis, this paper uses panel fixed effect model to test the impact of QFII, the ratio of QFII and CQFII on corporate performance, and establishes the following models:

Model (1):

$$EPS_{i,t} = \beta_0 + \beta_1 QFII_{i,t} + \beta_2 Control_{i,t} + \sum Year_t + \sum Industry_i + \varepsilon_{i,t} \quad (1)$$

Model (1) is used to verify H1a, H1b model (2) is used to verify H2a, H2b. If, significantly positive, it shows that QFII improves the performance of the company.

Descriptive analysis

Table 3 Descriptive statistics of major variables

Variable	Sample size	Mean value	Standard deviation	Median	Minimum value	Maximum
EPS	25857	0.2467	0.3465	0.1443	-0.428	1.77
QFII	25857	0.3499	1.0564	0	0	6.5619
CQFII	25857	0.0110	0.0345	0	0	0.2171
DFII	25857	40.2935	22.3575	42.0709	0	85.4665
LEV	25857	15.6085	36.8627	10.4545	-60.0928	207.61
LNS	25857	22.4992	1.3160	22.3866	19.8703	26.04
GROWTH	25857	50.0806	18.7858	50.9348	7.8031	86.94
QR	25857	1.6546	1.6546	1.2742	0.2033	9.3579
TT	25857	0.4532	0.4218	0.3287	0.0199	2.2975

Table 3 is the descriptive statistics of the main variables. The EPS mean value of enterprise performance is 0.2457, the minimum value is - 0.4280 and the maximum value is 1.77, which indicates that there is still a big gap between the performance of Listed Companies in China. The average value of QFII shareholding is 0.3499. Compared with the average value of domestic institutional shareholding DFII 40.29, the proportion of QFII shareholding is lower. However, if QFII can have a certain impact on the performance of listed companies, it will provide a new way for the development of enterprises. The maximum shareholding of QFII is 6.56%, which is in line with the “Interim Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors”, and the listed company is less than 20% owned by QFII. The average value of CQFII is 0.0110, indicating that the number of shares held by QFII in the sample company accounts for 1.10% of the number of shares held by the largest shareholder.

3. Empirical analysis

3.1 QFII and corporate performance

Table 4 Basic Analysis of Overseas Investor Ownership and Enterprise Performance

	(1)	(2)
	Eps	Eps
QFII	0.0166***	
	(-10.56)	
CQFII		0.408***
		(-8.47)
DFII	0.00204***	0.00203***
	(-18.52)	(-18.38)
GROWTH	0.000890***	0.000893***
	(-20.38)	(-20.43)
LEV	-0.00397***	-0.00396***
	(-22.54)	(-22.47)
LNS	0.106***	0.106***
	(-28.46)	(-28.32)
QR	0.0128***	0.0128***
	(-6.69)	(-6.73)
TT	0.206***	0.207***
	(-28.47)	(-28.56)
Year	Control	Control
Industry	Control	Control
Constant	-2.150***	-2.138***
	(-27.16)	(-26.99)
N	25854	25854
R-sq	0.274	0.273

Note: ***,**,* respectively indicate the significant level of 1%, 5% and 10%. The value in parentheses is t value.

The basic regression results were obtained for the relationship between QFII holdings and corporate performance. The Hausman test on the sample data shows that the value of Hausman test is less than p rejects the null hypothesis. Therefore, this paper uses the control time and industry panel fixed effect model to analyze the relationship between foreign institutional investors' shareholding and corporate performance. The QFII coefficient in column (1) in Table 4 is significantly positive at the level of 1%, indicating that the QFII shareholding ratio increases, and the higher the firm's performance, indicating that QFII can improve corporate performance through shareholding behavior. QFII holdings may improve the performance of the stock market by: QFII holdings enhance the liquidity of stocks and reduce the volatility of stock prices. This will help stabilize the stock price, improve the financing ability of the company, promote the development of the company, and improve the performance of the company. (2) The coefficients of column CQFII are significantly positive at the level of 1%, which indicates that the more the proportion of QFII

shares to the number of first shareholders, the higher the company's performance. It shows that the higher the proportion of QFII shareholding, the greater the voice power of QFII, so that it can better participate in corporate governance, and then improve corporate performance, which is consistent with the research of Shi Jinyan et al. (2012) [8]. Institutional investors represented by QFII usually take a positive attitude of shareholders to participate in corporate governance, improve corporate performance, and enjoy the additional benefits of improving corporate performance. The increase of QFII shareholding can avoid the phenomenon of “dominant share”, reduce its encroachment on the interests of minority shareholders, and restrain the private interests of major shareholders (Chen Xiaoyue and Xu Xiaodong, 2001) [9]. Equity checks and balances help improve corporate governance. The greater the checks and balances of other major shareholders on controlling shareholders, the higher the company performance (Chen Deping and Chen Yongsheng, 2011) [10]. The hypothesis of this paper is verified.

3.2 Robustness check

Like almost all corporate performance studies, the impact of overseas investors on corporate performance is endogenous. In this paper, robustness test is carried out by grouping enterprise scale and tool variable method. GMM estimation method is used to control endogenous problems. For panel data, lag variables of endogenous explanatory variables are often used as tool variables. Therefore, this paper uses the lagged one-stage (LOFII) of foreign investors'shares and the lagged one-stage (LCQFII) of the ratio of QFII holdings to the number of first shareholders' shares as instrumental variables. On the other hand, the median of the company size is the cut-off point, the median is larger than the Big group, and the median is the Small group. The regression results are shown in Table 5. From the first column and the second column in Table 5, the lag period between the shareholding of foreign investors and the number of shares held by QFII and the number of shares held by the largest shareholder is used as a tool variable, and the results obtained are basically the same as those in Table 3. Consistent. The estimated coefficients of QFII and CQFII are still significantly positive at the 1% level, and the signs of the control variables are also consistent with Table 4, indicating that the regression results obtained are robust. The third and fourth columns in Table 5 show the larger and smaller regression results, respectively, and the results are consistent with Table 4, again verifying that the regression results obtained are robust.

4. Research conclusions and recommendations

This study takes the quarterly data of A-share listed companies in 2006-2018 as the research object, and studies the impact of QFII holdings on corporate performance. The results show that the increase in QFII shareholding significantly enhances corporate performance, that is, increases QFII shareholding ratio, and corporate performance has been significantly improved. The increase of the proportion of QFII ownership to the first East ownership has improved the performance of enterprises. Therefore, increasing the number of QFII and gradually relaxing capital account control will help to improve corporate performance, and then promote the healthy development of China's capital market.

Based on the above, the policy recommendations of this paper are as follows: (1) Speeding up the opening of financial markets to the outside world, so that more QFII can participate in the Chinese market. In order to improve the structure of investors in China and promote the maturity and specialization of China's capital market. Increase the quantity and investment quota of QFII, make it hold more shares of listed companies, so as to better improve the performance of enterprises through the change of its shareholding. (2) QFII institutional investors can provide sufficient funds and advanced governance concepts for their listed companies due to their capital, information and professional advantages, thus further improving their performance. Only in this way can we truly let the capital market play the role of resource allocation, so that investors can invest in those enterprises that have real potential and promote the healthy and sTable development of the economy.

Table 5: The test of the stability of foreign investors' shareholding and corporate performance

	(1)	(2)	(3)	(4)
	Eps	Eps	Eps	Eps
LQFII	0.0146***			
	(5.74)			
LCQFII		0.373***		
		(6.37)		
Big			0.0483***	
			(18.28)	
Small				1.404***
				(17.71)
DFII	0.00165***	0.00134***	0.00351***	0.00360***
	(10.41)	(11.24)	(33.91)	(34.77)
GROWTH	0.00110***	0.000581***	0.00127***	0.00127***
	(15.66)	(11.89)	(23.37)	(23.42)
LEV	-0.00552***	-0.00265***	-0.00418***	-0.00426***
	(-17.08)	(-12.98)	(-29.66)	(-30.16)
LNS	0.0750***	0.0767***	0.0779***	0.0783***
	(15.17)	(19.77)	(40.74)	(40.80)
QR	0.0373***	0.00315	0.0157***	0.0151***
	(7.68)	(1.67)	(8.54)	(8.20)
TT	0.458***	0.278***	0.143***	0.143***
	(56.78)	(45.14)	(23.93)	(23.74)
Year	Control	Control	Control	Control
Industry	Control	Control	Control	Control
Constant	-1.485***	-1.549***	-1.523***	-1.533***
	(-13.45)	(-19.12)	(-34.11)	(-34.19)
N	12903	12951	25347	25347
R-sq	0.265	0.213	0.313	0.311

Note: ***, **, and * indicate the significance level of 1%, 5%, and 10%, respectively: the t value of the two-sided test in parentheses.

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