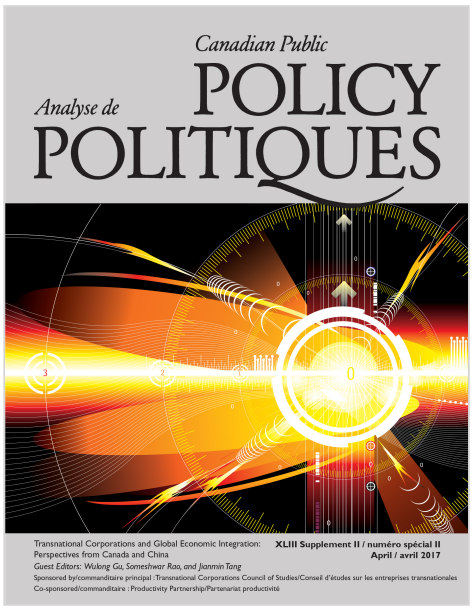

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Qualified Foreign Institutional Investor Shareholdings and Corporate Operating Performance

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ABSTRACT RÉSUMÉ

In this article, profitability, asset quality, debt risk, and sales growth are used as measurement indices of corporate operating performance. On the basis of panel data of 630 companies for 2008–2014

higher the QFII shareholdings ratio is, the higher the enthusiasm is for QFII shares participating in corporate governance, and the better the general corporate operating performance. The findings provide an important reference for Chinese transnational corporations to introduce QFII shares to improve governance structure and corporate operating performance.

Introduction

Since China's entrance into the World Trade Organization, internationalization has become a choice for many enterprises to enlarge their markets and obtain resources and technology advantages. By 2015, more than 15,000 enterprises had "gone abroad," and more than 40,000 companies had been established overseas. Chinese transnational corporations invest overseas and cooperate with foreign institutional investors in joint ventures. China began to introduce the qualified foreign institutional investor (QFII) system in 2003, and the number and investment quotas of QFIIs are increasing yearly. As of February 23, 2016, the number and cumulative investment quotas of QFIIs increased to 279, totaling US$807.95 billion. Chinese QFIIs are mainly from European and North American countries, such as the United States, Britain, Canada, and France, and from Asia, such as Hong Kong, Japan, South Korea, and Taiwan. Nigam and Su (2013) argued that transnational corporations of emerging economic communities were rapidly improving their operating performance. Undoubtedly, the number of Chinese transnational corporations is growing rapidly. Whether domestic businesses or overseas operations, investors will inevitably pay attention to their corporate governance and operating performance. Although the Chinese Companies Act has been in operation for many years, the problems in corporate governance of large shareholder control, insider control, and independent directors without being independent still exist, restricting the sustainable development of Chinese transnational corporations. As the main institutional investors in China, QFIIs possess strong capital power, rich management experience, and a unique investment philosophy. QFIIs could have a positive impact on corporate governance structure and operating performance.

The existing studies care less about the relationship between QFIIs' shareholdings and corporate governance and operating performance. Wu, Wan, and Cai (2011) argued that QFIIs' shareholdings could improve corporate governance. On one hand, Aggarwal et al. (2011) and Wang, Fang, and Liu (2013) suggested that QFIIs' shareholdings would positively influence corporate operating performance. On the other hand, Liu and Wu (2011) concluded that there were no significant correlations between QFIIs' shareholdings and corporate operating performance.

Existing studies chose only listed companies as their main sample, and little has been done to include Chinese transnational corporations. QFIIs were chosen as an independent variable in these existing studies, but there was no distinction between direct investment (such as share investment) and indirect investment (such as security investment). Because only share investors can form transnational corporations, direct investment in QFII shares by these corporations will influence their long-term interests, monitor the behaviour of management, and participate in corporate governance. Conclusions regarding the relationship between QFIIs' shareholdings and corporate operating performance will be different, mainly because of differences in the research sample, time span, and what index of operating performance is measured. Most foreign scholars use Tobin's Q value to measure corporate operating performance, whereas most Chinese scholars prefer financial indices, such as return on assets (ROA) and return on equity (ROE). Corporate operating performance is evaluated by means of four measures: profitability, asset quality, debt risk, and sales gr onal corporations are included in the sample used in this article. Therefore,

the effect of direct investment of foreign institutional shareholdings (QFII shares) on corporate operating performance is studied in this article.

Theoretical Analysis and Hypothesis Construction

Analysis of QFII Shares and Corporate Governance of Chinese Transnational Corporations

The participation of QFII shares in the governance of Chinese transnational corporations is determined primarily by the relationship between governance costs and governance benefits. Three specific motivations are as follows. First, because transnational corporations possess the competitive advantages of scale, technology, talent, and management, QFII shares investment in Chinese transnational corporations can obtain stable return on investment in the longer term. QFII shares are capable of improving the corporate governance mechanism because they have rich management experience (Shleifer and Vishny 1986). In addition, with an increase in ratio and quota of the QFII shareholdings, the interests of QFII shareholders tend to be consistent with the corporation's objectives, and QFII shareholders actively participate in corporate governance. Moreover, transnational corporations need to disclose more corporate information because they are engaging in operations on a global scale. Thus, an increase in QFII shares can obtain more information at a lower cost and reduce per-unit governance cost.

QFII Shareholdings Ratio and the Operating Performance of Chinese Transnational Corporations

Corporate operating performance is the fundamental factor that helps QFII shares obtain greater investment return. Since QFII shares entered the Chinese market, they have adhered to the philosophy of long-term investment value. To obtain more investment return, QFII shares usually actively participate in corporate governance and improve the governance structure.
The higher the QFII shareholdings ratio is, the greater their right to control is and the greater their probability of affecting corporate governance through internal and external mechanisms (Aggarwal et al. 2011). In this case, QFII shares can improve the phenomena of insider control and a shareholder monopoly. Therefore, when the QFII shareholdings ratio is higher, the per-unit governance cost is lower, the investment return is higher, and the enthusiasm for participating in corporate governance is higher. In contrast, when the QFII shareholdings ratio is lower, the per-unit governance cost is higher and the enthusiasm for participating in corporate governance is lower.
According to the benefit synergy hypothesis, the higher the QFII shareholdings ratio is, the greater the motivation is for QFII shares to improve management. Thus, QFII shares will reduce agent costs between shareholders and management and improve the corporation's operating performance. Hence, the higher the QFII shareholdings ratio is, the greater the effect of the corporation's operating performance on the return on investment. So QFII shareholders prefer to actively participate in corporate governance and obtain a greater long-term return on investment. Therefore, the following hypothesis is proposed.

reholdings ratio is positively correlated with the operating performance
nal corporations.

QFII Shareholdings Checks and Balances Degree and the Operating Performance of Chinese Transnational Corporations

Chen and Chen (2011) argued that ownership checks and balances were beneficial in improving the corporate governance structure. Experiences with QFII shares in South Korea and Taiwan have showed that QFII shareholdings improved corporate governance structure and corporate operating performance (Sun and Lin 2006).
The higher the ownership checks and balances degree is, the greater the other large shareholders' control, the greater their motivation and the ability to supervise, and the higher the corporate operating performance. In China, the first major shareholder in a transnational corporation always has the actual right to control management and decision making, which thereby results in internal governance issues of large shareholder control and a shareholder monopoly. To reduce damage by the first major shareholder to corporate interests, it is necessary that the other shareholders to act as check and balance to the first major shareholder by introducing a mutual supervision mechanism and guaranteeing the rights and interests of medium and small shareholders. The higher the degree of checks and balances by the QFII shareholders on the first major shareholder in Chinese transnational corporations is, the greater their control and the greater their ability to participate in corporate governance. Therefore, the following hypothesis is proposed.

> *Hypothesis 2:* The degree of checks and balances of QFII shareholders on the first major shareholder is positively correlated with the corporate operating performance of Chinese transnational corporations.

Research Design

Sample Selection and Data Sources

Sample companies are selected from Chinese transnational corporations listed as A-shares in the Chinese Shanghai and Shenzhen security markets from 2008 to 2014, after the completion of China's split-share structure reform. To ensure the availability of data and the feasibility of research, sample companies are selected in accordance with the following three principles:
1.
Listed companies marked for special treatment are deleted, because these companies incurred losses in two consecutive years, and the management is likely to have some problems.
2.
Transnational financial and insurance industries are removed, because the cash flow of these companies is enormous and does not represent the real economy.
3.
Listed companies lacking relevant data are deleted.
Using these criteria, 630 companies are selected (including state-owned holding and non–state-owned holding corporations). The data for the empirical study are obtained from the RESSET database (n.d.), and the statistical software used is Eviews version 6.0 (IHS Global, Informer Technologies, Inc., Madrid, Spain).

V nd Definition

Dependent Variables

In studies on measures of corporate operating performance, Demsetz and Lehn (1985) and Zhou and Chen (2010) used ROE, and Wu and Xia (2004) applied ROA. McConnell and Servaes (1990) and Hao and Zhou (2010), however, used Tobin's Q value. The selection of indices of corporate operating performance in the existing studies has problems, such as giving priority to financial indexes and having a one-dimensional approach to corporate performance selection. Comprehensively measuring corporate operating performance is difficult using just financial indices or using only one index, which will negatively influence the objectivity and effectiveness of conclusions. Therefore, in this article we measure the operating performance of Chinese transnational corporations using the following aspects.

Profitability is measured by *ROE*. *ROE* is used to measure the ability of a transnational corporation to gain a net return on its own capital. The higher *ROE* is, the higher the return on investment, and vice versa. Asset quality is measured by total asset turnover (*TAT*). *TAT* is an important index to evaluate management quality and utilization efficiency of corporations' assets. The higher *TAT* is, the stronger the sales ability and the higher the utilization efficiency of assets. Debt risk is measured by the asset–liability ratio (*Debt*). *Debt* indicates the proportion of total assets of transnational corporations raised by debt. *Debt* is an important index in evaluating debt levels and the degree of risk. The appropriate level of *Debt* is generally considered to be around 40 percent to 60 percent. *Sales growth* is an important index to evaluate corporations' growth and development. The higher the *Sales growth* is, indicating the faster the growth rate of transnational corporations and the better the market prospects are.

Independent Variables

QFII shareholdings ratio (*QFII*) is measured by the proportion of QFII shareholdings in total shares of Chinese transnational corporations. *QFII* is regarded as an important index to determine whether QFII shares are willing to participate in corporate governance and their degree of participation. *QFII* reflects the motivation of QFII shares participating in corporate governance. The higher the *QFII* is, the higher the enthusiasm of QFII shares to participate in corporate governance. *QFII* improves the corporate governance structure and operating performance. The degree of QFII shareholdings checks and balances (*QFIIZHD*) is expressed as the proportion of QFII shareholdings of the first major shareholder. *QFIIZHD* reflects the ability of QFII shares to participate in corporate governance. It can improve managerial behaviour and guarantee the rights and interests of medium to small shareholders. The higher the *QFIIZHD* is, the stronger the ability of QFII shares to participate in corporate governance and vice versa.

Controlling Variables Company size (*Size*) can provide a guarantee to gain the benefits of scale economies and improve market competition and corporate operating performance, but it could create principal agent problems and have negative effects on operating performance. Generally, *Size* can be measured by the size of staff, sales, or assets. In this article, *Size* is measured by the natural logarithm of total assets. In addition, the degree of ownership concentration (*H5Index*) influences corporate operating performance (Xu, Xin, and Chen 2006). Possible indices of *H5Index* include the shareholdings ratio of the first major shareholder, the top 5 shareholders, or the top 10 shareholders. *H5Index* in this article is measured by the sum of squares of shareholdings ratio of the top 5 sh ternationalization of corporate operations (*Expr*) also has an impact on co rmance. Because internationalization of Chinese transnational

corporations is mainly based on export sales, *Expr* is measured by the proportion of overseas sales in total sales of transnational corporations.

Research results from the corporate governance team of Nankai University indicate that the governance level of state-owned enterprises is significantly higher than that of non–state-owned enterprises. Li and Tang (2006) demonstrated that the nature of the first major shareholder had an effect on corporate operating performance. Thus, the type of controlling shareholders (*State*) is chosen as controlling variable. Xiao and Xue (2014) argued that an independent director system was beneficial in improving corporate operating performance. However, Chen and Zhang (2015) believed that an independent director system had no significant effect on corporate operating performance. This article holds the view that the independent director system can act as the mechanism for checks and balances and supervision of management, protect the rights and interests of medium to small shareholders, and prevent insider control. Hence, the proportion of independent directors (*DLDS*) is chosen as a controlling variable.

Names and descriptions of all variables used in this article are shown in Table 1.

Table 1: Name and Definition of Variables

Variable and Variable Name	Variable Definition
Dependent Variables	
Return on Equity (*ROE*)	Net profits/net assets
Total Assets Turnover (*TAT*)	Operating income/average total assets
Asset–Liability Ratio (*Debt*)	Debt/assets
Sales Growth Rate (*Sale*)	Operating income growth this year/total operating income last year
Independent Variables	
QFII Shareholdings Ratio (*QFII*)	QFII shares/total shares of corporation
Degree of QFII Shareholdings Checks and Balances (*QFIIZHD*)	QFII shareholdings ratio/first major shareholder ratio
Controlling Variables	
Company Size (*Size*)	Log (total assets at the year end)
Degree of Ownership Concentration (*H5Index*)	Sum of squares of shareholdings ratios of the top five stockholders
Degree of Internationalization of Operations (*Expr*)	(Oversea sales of main business/total sales)×100
Controlling Shareholders (*State*)	State-owned enterprise=1; otherwise=0
Proportion of Independent Directors (*DLDS*)	No. of independent directors/no. of board of directors

Model Formulation

The Hauseman test results show that $p<0.05$, rejecting the null hypothesis. An entity fixed-effects model is used in this article. To evaluate the effect of QFII shareholdings on corporate operating performance, two regression models, model 1 and model 2, testing hypotheses 1 and 2, respectively, are estimated by using the 2008–2014 panel data. To reduce the endogeneity problem, this article uses a one-period lag of corporate performance.

$$Perfi,t+1=\alpha+i\beta1QFIIi,t+\beta2Sizei,t+\beta3H5Indexi,t+\beta4Expri,t+\beta5Statei,t+\beta6DLDSi,t+\varepsilon i,t, \quad (1)$$

$$Perfi,t+1=\alpha+i\beta1QFIIZHDi,t+\beta2Sizei,t+\beta3H5Indexi,t+\beta4Expri,t+\beta5Statei,t+\beta6DLDSi,t+\varepsilon i,t, \quad (2)$$

where $Perf_{i,t+1}$ represents the operating performance of the ith company in (t+1) year, which is measured by *ROE*, *TAT*, *Debt,* and *Sale; QFII*$_{i,t}$ represents the QFII shareholdings ratio of the ith company in t year; *QFIIZHD*$_{i,t}$ represents the degree of QFII shareholdings checks and balances on the ith company in t year; *Size*$_{i,t}$ represents the size of the ith company in t year; *H5Index*$_{i,t}$ represents the degree of ownership concentration of the ith company in t year; *Expr*$_{i,t}$ represents the degree of internationalization of operations of the ith company in t year; *State*$_{i,t}$ represents the type of controlling shareholders of the ith company in t year (when controlling shareholders are state-owned enterprises, it is 1, otherwise, it is 0); *DLDS*$_{i,t}$ represents the proportion of independent directors of the ith company in t year; α_1 represents a random variable; and ϵ_{it} represents the stochastic error item; i=1, 2, 3, ... 630; t=2008, 2009, ... 2014.

Empirical Results

Descriptive Statistics of Variables

Descriptive statistical results for all variables are shown in Table 2.

Table 2: Descriptive Statistics for Variables

Variable	Range	Mean (SD)
ROE	-10.14–27.59	9.86 (7.43)
TAT	0.17–2.34	0.85 (0.45)
Debt	12.38–84.84	58.08 (17.93)
Sale	-36.93–78.17	6.92 (18.08)
QFII	0.01–8.23	1.03 (1.31)
QFIIZHD	0.00–0.61	0.04 (0.09)

Variable	Range	Mean (SD)
Size	2.03–12.36	6.41 (2.33)
H5Index	14.57–97.89	65.17 (21.31)
Expr	0.65–49.84	10.34 (9.21)
State	0.00–1.00	0.79 (0.41)
DLDS	0.00–0.60	0.34 (0.13)

Note: No.=630. *DLDS*=proportion of independent directors; *QFII*=qualified foreign institutional investor shareholdings ratio; *QFIIZHD*=degree of QFII shareholdings checks and balances; *ROE*=return on equality; *TAT*=total assets turnover; Debt = asset liability ratio; Sale = sales growth rate; Size = company size; H5Index = degree of ownership concentration; Expr = degree of internationalization of operations; State = controlling shareholders.
Source: Descriptive statistics analysis conducted in Eviews version 6.0.

It can be seen from Table 2 that, first, the average values for *QFII* and *QFIIZHD* are lower, indicating that the motivation and the ability of QFII shares to participate in corporate governance of Chinese transnational corporations are weaker. Second, the differences in *ROE, Debt,* and *Sale* of Chinese transnational corporations are greater, but there is not much difference in *TAT*. The whole development of Chinese transnational corporations is better, and *Debt* is overall reasonable. Finally, there are certain differences in company size. The gap between *H5Index* and *Expr* is bigger, whereas *H5Index* is on the high side, and the controlling shareholders (*State*) of corporations are mainly the state-owned enterprises. However, *Expr* is on the low side. On the whole, *DLDS* of Chinese transnational corporations has met the requirements of the China Securities Regulatory Commission (accounted for more than one-third). However, some corporations have no independent directors.

Correlation Analysis

Because many independent variables are included, some degree of correlation among the variables is likely, so a Pearson correlation test is necessary. The results of the correlation test show that *QFII* and *QFIIZHD* are positively correlate with the indices of corporate operating performances, whereby hypotheses 1 and 2 are confirmed. The correlation coefficient between *QFII* and *QFIIZHD* is 0.918, but because the two variables do not appear in the same regression equation, they will not produce any adverse effects on the regression results. The absolute value of the correlation coefficient among other variables is less than 0.5, indicating that there is no multicollinearity problem among these variables. Therefore, multiple regression analysis can be conducted.

Multiple Regression Analysis

The ordinary least squares method is used to carry out the multiple regression analysis of models 1 and 2, and the results are shown in Tables 3 and 4.

Table 3: Regression Results on *QFII* and Corporate Operating Performance: Chinese Transnational Corporations, 2008–2014

	Coefficient (*t* Test)			
Variable	***ROE***	***TAT***	***Debt***	***Sale***
Constant	8.283 (1.947)	0.619 (2.075)**	45.744 (3.817)***	13.707 (1.132)
QFII	3.378 (4.612)***	0.132 (2.567)**	2.068 (1.002)	2.531 (1.214)
Size	-0.335 (-0.709)	-0.004 (-0.119)	2.609 (1.965)*	-1.343 (-1.001)
H5Index	0.046 (0.827)	-0.001 (-0.160)	-0.205 (-1.317)	-0.052 (-0.329)
Expr	-0.025 (-0.256)	0.005 (0.694)	0.014 (0.049)	0.350 (1.256)
State	-0.666 (-0.289)	0.291 (1.803)*	12.536 (1.934)*	9.698 (1.482)
DLDS	-5.880 (-0.852)	-0.308 (-0.637)	-7.789 (-0.401)	-24.441 (-1.245)
R^2	0.385	0.181	0.162	0.159
DW	2.052	2.263	2.042	2.294

Notes: DW, in the vicinity of 2, indicates that there is no serial correlation. *DLDS*=proportion of independent directors; DW=Durbin–Watson test; *QFII*=qualified foreign institutional investor shareholdings ratio; *ROE*=return on equity; *TAT*=total assets turnover; Debt = asset liability ratio; Sale = sales growth rate; Size = company size; H5Index = degree of ownership concentration; Expr = degree of internationalization of operations; State = controlling shareholders.
*p<0.1; **p<0.05; ***p<0.01.
Source: Correlation analysis conducted in Eviews version 6.0

Table 4: Regression Results on *QFIIZHD* and Corporate Operating Performance: Chinese Transnational Corporations, 2008–2014

	Coefficient (*t* Test)			
Variable	***ROE***	***TAT***	***Debt***	***Sale***
Constant	10.790 (2.362)**	0.737 (2.425)**	49.207 (4.137)***	16.585 (1.380)
QFIIZHD	40.844 (3.268)**	1.446 (1.738)*	11.011 (0.338)	23.340 (0.710)
Size	-0.618 (-1.187)	-0.014 (-0.408)	2.519 (1.859)*	-1.511 (-1.104)
	.088)	0.000 (0.005)	-0.214 (-1.308)	-0.047 (-0.282)

	Coefficient (*t* Test)			
Variable	***ROE***	***TAT***	***Debt***	***Sale***
Expr	-0.021 (-0.192)	0.005 (0.721)	0.037 (0.133)	0.364 (1.287)
State	-1.358 (-0.543)	0.258 (1.549)*	11.569 (1.775)*	8.898 (1.351)
DLDS	-5.052 (-0.668)	-0.283 (-0.563)	-8.005 (-0.407)	-24.195 (-1.216)
R^2	0.266	0.118	0.145	0.141
DW	2.076	2.293	1.935	2.292

Notes: DW, in the vicinity of 2, indicates that there is no serial correlation. *DLDS*=proportion of independent directors; DW=Durbin–Watson test; *QFIIZHD*=degree of QFII shareholdings checks and balances; *ROE*=return on equity; *TAT*=total assets turnover; Debt = asset liability ratio; Sale = sales growth rate; Size = company size; H5Index = degree of ownership concentration; Expr = degree of internationalization of operations; State = controlling shareholders.
*p<0.1; **p<0.05; ***p<0.01.
Source: Correlation analysis conducted in Eviews version 6.0.

From Tables 3 and 4, it can first be seen that *QFII* and *QFIIZHD* are significantly positively correlated with *ROE* and *TAT*. This result indicates that the higher *QFII* and *QFIIZHD* are, the higher the motivation and ability of QFII shares to participate in corporate governance and the higher the investment return and the assets utilization efficiency, and corporate operating performance is improved. Second, sales growth rate mainly depends on the life cycle of products. The asset–liability ratio mainly depends on company size and the nature of controlling shareholders. *QFII* and *QFIIZHD* have no significant effect on *Sale* and *Debt*.
Third, *Size* is positively correlated with *Debt* at p<0.1, indicating that the larger the company is, the stronger the company's ability to run into debt. Because *ROE* is mainly affected by companies' capital structure and the income tax rate and *TAT* is mainly affected by companies' capital composition and assets management capability, they are not directly correlated with company size. Therefore, *Size* is not significantly correlated with *ROE* and *TAT*.
Fourth, the degree of ownership concentration has a negative effect on corporate operating performance. Fifth, the degree of internationalization of operations includes two aspects, foreign production penetration and foreign market penetration. These two aspects have different effects on corporate operating performance, and this article does not distinguish between them. Perhaps for this reason, the *Expr* variable has no significant impact on corporate operating performance.
Sixth, *State* and *TAT* always positively correlate with *Debt* at p<0.1, indicating that the sales ability and asset–liability ratio of state-owned enterprises are higher than those of non–state-owned enterprises. Accordingly, the result is consistent with reality. Because the return on equity and sales growth are directly correlated with the nature of controlling shareholders, *State* has no significant impact on *ROE* and *Sale*. Last, at present, the Chinese independent directors system is in a formative state and may not be able to monitor management effectively. Consequently, the effect of *DLDS* on corporate operating performances is not statistically significant.

Economic value added (EVA) is a tool used to evaluate corporations' ability to effectively use capital and create value for their shareholders. The higher the EVA is, the greater the economic value created for shareholders, the higher their enthusiasm for participating in corporate governance, and the higher their corporate operating performance. Hence, EVA is used to test models 1 and 2 for robustness checks. The results indicate that *QFII* and *QFIIZHD* are positively correlated with the EVA of Chinese transnational corporations. In other words, an increase in *QFII* and *QFIIZHD* is helpful in improving the operating performance of Chinese transnational corporations. Thus, hypotheses 1 and 2 are also confirmed.

Conclusion and Discussion

Transnational corporations play an important role in their host countries. See, for example, Wang (2014), who focuses on the case of Canada. However, many issues are associated with the corporate governance of these transnational corporations in host countries, such as large shareholder control, insider control, and independent directors without being independent. These issues directly influence the operating performance of transnational corporations. The introduction of QFII shares is beneficial in improving corporate governance structure and operating performance. Panel data for 2008–2014, after the completion of China's split-share structure reform, are used to estimate an entity fixed-effects model, using multiple linear regression analysis. To reduce the endogeneity problems, a one-period lag on corporate operating performances is used.

The results show that *QFII* and *QFIIZHD* are significantly positively correlated with the return on equality and total assets turnover. In other words, the higher the *QFII* and *QFIIZHD* are, the higher the motivation and the ability of QFII shares to participate in corporate governance, the higher the investment return and assets utilization efficiency, and the better the operating performance. Sales growth rate is mainly related to products' life cycle, which has no direct correlation with corporate governance level. Hence, the effects of *QFII* and *QFIIZHD* on asset–liability ratio and sales growth rate are not statistically significant. The research conclusions indicate that an increase in the QFII shareholdings ratio and the degree of QFII shareholdings checks and balances are beneficial for improving the motivation and ability to participate in corporate governance, avoid the phenomenon of a shareholder monopoly and insider control, and improve the operating performance of Chinese transnational corporations.

Finally, on the basis of this article's research conclusions, the following policy prescriptions emerge. First, although the corporate governance structure of Chinese transnational corporations has improved in recent years, there are still some problems constraining the development of Chinese transnational corporations, such as large shareholder control and insider control. Hence, more quality QFII shares should be attracted to improve the governance structure.

Second, Chinese government should appropriately reduce the threshold on QFII shares, raise the QFII shareholdings ratio and increase the degree of shareholdings checks and balances, fully mobilize the motivation and ability of QFII shares to participate in corporate governance, and improve the corporate governance structure of Chinese transnational corporations. Third, the Chinese government should strengthen the supervision of QFII shares, encourage long-term investment in QFII shares, restrict short-term investment behaviour, and prevent manipulative behaviour by QFII shareholders.

This article studied only the effects of QFII shareholdings ratio and the degree of shareholdings ch[Newsletter Sign Up]e operating performance of Chinese transnational corporations. It did not to[Newsletter Sign Up]cts of QFII shareholdings period on corporate governance and operating

performance. To address the endogeneity problem related to QFII shares and corporate operating performance, only a one-period lag on corporate operation performance variables is used. Future research should study the effect of QFII shareholdings period on corporate operating performance and explore more effective methods of addressing the endogeneity problem.

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