Does information opacity suppress qualified foreign institutional investor (QFII) investment? Evidence from QFII decisions in the A-share market

Yang Yaojing[a,b], Nor Farradila Abdul Aziz[a*]

[a]*Faculty of Buisness and Management, Universiti Teknologi MARA, Malaysia;* [b]*Liuzhou Institute of Technology, Guangxi, China*
[b]*Faculty of Buisness and Management, Universiti Teknologi MARA, Malaysia*

ARTICLE INFO	ABSTRACT
	Since the removal of Qualified Foreign Institutional Investor (QFFI) quotas in 2019, foreign capital has become a pivotal long-term investor in China's A-share market; yet systematic evidence on whether these institutions screen firms for information transparency at the micro level remains scarce. Examining 15,216 firm-year observations from 2019 to 2023, we proxy information opacity by the sum of absolute discretionary accruals over the preceding three years and estimate a Logit model of annual QFII holding decisions. A two-sample t-test shows that firms held by QFIIs exhibit significantly lower opacity than those not held, while the Logit results indicate that a one-unit increase in opacity reduces the probability of QFII ownership by 1.102 percentage points. These findings demonstrate that transparency serves as a primary threshold for foreign entry. Accordingly, regulators should therefore strengthen disclosure requirements, while firms should curtail earnings management, to enhance A-share attractiveness to long-horizon foreign capital and bolster China's global market competitiveness.

1. Introduction

The Qualified Foreign Institutional Investor (QFII) program has undergone significant reforms in recent years. In September 2019, the State Administration of Foreign Exchange of China announced the removal of investment quota limits for both QFII and RQFII, substantially lowering the institutional barriers for foreign capital to enter the A-share market. Subsequently, in 2020, the China Securities Regulatory Commission, together with relevant authorities, issued and implemented the unified QFII/RQFII regulations, further relaxing entry requirements and expanding eligible investment scopes. These institutional changes provide a new temporal and sample context for observing the allocation preferences of foreign investors at the firm level, particularly whether they selectively invest in firms with clearer information environments and higher quality financial reporting.

---

* Corresponding author. *E-mail address*: norfa503@uitm.edu.my

Existing studies indicate that the presence of foreign institutional investors is not only associated with stronger internal controls, tighter audit oversight, and higher informational content in stock prices, but is also often regarded as an exogenous force enhancing corporate information environments and governance. This raises an important yet underexplored question: when firms' financial reports are opaque and managerial discretion is greater, do foreign investors "vote with their feet" by reducing the likelihood of entry or holdings? Recent evidence from China suggests that foreign institutional investment is significantly linked to higher market information content, and that QFII holdings are typically accompanied by stronger internal control quality and more rigorous external audits, implying a potential aversion to financial opacity. However, at the binary decision level of "whether to hold," there remains a lack of systematic evidence covering the post-reform period on whether firm-level information opacity affects the selection of investable targets (Xie et al., 2024; Li et al., 2021; Li & Wang, 2022). However, it remains unclear whether QFIIs avoid firms with opaque reporting environments. Most prior studies examine the post-entry governance effects of QFII ownership, while few explore the pre-entry screening mechanism that determines whether QFIIs choose to invest in a firm. This study fills this gap by focusing on QFII's entry decision in the post-2019 quota-free period.

This paper examines the period 2019–2023 for Chinese A-share listed companies to address the central question: does information opacity influence whether QFIIs invest in a firm? Focusing on the "entry decision" rather than the shareholding ratio, we employ a binary Logit model to assess the marginal effect and economic significance of opacity on QFII participation, while controlling for annual and industry heterogeneity as well as common firm characteristics. The study aims to reveal the micro-level mechanisms through which information opacity affects foreign capital's willingness to enter the market in the context of rapidly opening capital markets, providing empirical insights that inform market transparency improvement and institutional design. The remainder of this paper is organized as follows. Section 2 reviews relevant literature and develops the hypothesis. Section 3 presents the data, variables, and empirical model. Section 4 discusses empirical results, and Section 5 concludes with implications and future research directions.

2.   Literature review and hypothesis development

2.1   Information opacity and investor adverse selection risk

Information opacity is primarily reflected through the manipulability of accounting accruals. The higher this measure, the greater the managerial discretion in earnings, making it difficult for external investors to distinguish between true performance and managerial adjustments. Consequently, it raises the risk of adverse selection. Empirical studies, such as Dechow et al. (1995) and Kothari et al. (2005), develop models to measure discretionary accruals, which remain standard proxies for earnings management.

From the perspective of investor behavior, information opacity diminishes the predictive value and credibility of financial statements, prompting investors to adopt more cautious strategies or even avoid participation. Empirical evidence from the Chinese market supports this view. Xie et al. (2024) find a significant positive relationship between foreign institutional entry and the information content reflected in stock prices, suggesting that foreign investors prefer firms with transparent information and high pricing efficiency. Similarly, Ali et al. (2024) shows that firms with higher institutional ownership exhibit better earnings quality that encompassing both discretionary accruals and real activity manipulation, indicating a preference among institutional investors for transparent and verifiable financial reporting environments. These studies suggest that foreign investors prefer transparent firms, yet they seldom distinguish between the entry decision and post-entry monitoring.

Collectively, these studies support the following logic, under a context of "selective entry", foreign institutions such as QFII are more likely to target firms with transparent information and high-quality financial reporting. Conversely, in opaque firms, where valuation uncertainty is high and due diligence

costs are greater, the willingness of QFII to enter is significantly reduced. This evaluation process is a critical consideration at the entry decision stage and has a decisive impact on whether the firm is ultimately held.

2.2 Foreign governance effects and transparency enhancement

In recent years, research on the governance effects of foreign institutional investors, particularly QFIIs in China's capital markets have expanded considerably. The central premise of this literature is that foreign equity holdings are not merely passive capital allocations; they may actively influence the information environment and operational mechanisms of investee firms through governance channels, thereby enhancing corporate transparency, reducing earnings management, and mitigating other agency costs. However, several unresolved issues remain in this field, including the heterogeneity of governance effects, the causal direction of foreign investment, and the predominant focus on post-investment outcomes rather than on the initial investment decision of whether to select firms with higher or lower transparency.

Existing studies indicate that foreign investors exhibit both selection and governance effects. For example, Li et al. (2021) show that QFII ownership significantly improves internal control quality and reduces earnings management. Similarly, Liu and Zhou (2022) find that firms held by QFII tend to pay higher audit fees, reflecting stronger external monitoring. Nevertheless, these studies primarily examine governance outcomes after foreign investment and rarely investigate whether foreign investors display a preference for more transparent firms prior to entry. Some research attempts to treat transparency as a mediating factor in governance improvement, yet these studies often use foreign ownership proportion or post-entry governance enhancement as the dependent variable, lacking a direct empirical analysis of the binary "entry decision" (Yi et al., 2024). Other perspectives suggest that governance improvements may be a consequence of foreign investment rather than a precondition guiding entry decisions (Li et al., 2021), highlighting the need to clearly distinguish between selection and governance effects.

Building on this insight, the present study focuses on the transparency-based selection effect at the binary ownership level, directly examining whether information opacity reduces the likelihood of QFII entry. Unlike prior studies that emphasize ownership proportion or governance improvements, this paper employs a binary Logit model with the dependent variable coded as 1 if a firm is held by QFII and 0 otherwise. This approach systematically investigates the role of information transparency in the initial foreign investment decision, thereby filling a gap in the literature regarding QFII's selection mechanism and providing empirical evidence on the economic significance of transparency in the context of an increasingly open capital market.

2.3 Research hypothesis

Within the frameworks of information asymmetry and signaling theory, the transparency of corporate financial reporting plays a critical role in foreign investment decisions. When a firm exhibits high information opacity, investors face greater difficulty in assessing its true value and operational quality. This increases adverse selection and monitoring costs, thereby reducing investment willingness (Akerlof, 1970; Spence, 1973).

Empirical evidence from the Chinese market indicates that foreign investors, including QFII, tend to hold stakes in firms with lower levels of earnings management, which reflects higher information transparency. For instance, Han et al. (2022) find a significant negative relationship between foreign ownership and corporate earnings management, suggesting that foreign investors prefer firms with higher disclosure quality and stronger earnings quality. Moreover, through their monitoring and governance roles, these investors further enhance corporate transparency.

Based on information asymmetry and signaling theory (Akerlof 1970; Spence 1973), transparency plays a decisive role in investment screening. High opacity increases due-diligence costs and adverse-selection risk, lowering QFII's willingness to invest. Thus, the study proposes that:

H1: A firm's information opacity is significantly and negatively associated with the likelihood of QFII ownership, controlling for other factors.

3. Methodology

3.1 Sample selection and data sources

This study investigates the influence of corporate information transparency on QFII investment decisions, focusing on Chinese A-share listed companies from 2019 to 2023. The data are primarily drawn from the CSMAR database. To ensure reliability and robustness, financial firms (e.g., banks, securities, and insurance companies) and companies at risk of delisting (ST/*ST firms) were excluded. Observations with missing values for key variables were also removed, and all continuous variables were winsorised at the 1st and 99th percentiles to mitigate the influence of extreme values. The final sample comprises 15,216 firm-year observations. The sample period is restricted to 2019-2023 for two reasons. First, the removal of QFII quotas in September 2019 marks a structural break, making this period ideal for observing voluntary foreign entry. Second, 2023 is the most recent fiscal year with complete data available at the time of writing.

3.2 Variable definitions

3.2.1 Dependent variable

The dependent variable is a binary indicator of QFII holdings (QFII_D), taking the value of 1 if a firm is held by a QFII in a given year and 0 otherwise.

3.2.2 Independent variable

Accounting earnings are among the most critical firm-specific pieces of information. Following Hutton et al. (2009), we gauge corporate information transparency through the lens of accounting-earnings transparency. Bhattacharya et al. (2003) argue that the opacity of accounting earnings is driven mainly by three factors-earnings aggressiveness, loss avoidance, and earnings smoothing, suggesting that earnings management is the central source of opacity. Discretionary accruals, the most widely employed proxy for earnings management, therefore serve as our measure of transparency. Firms whose discretionary accruals exhibit high volatility and persistently large absolute values are more likely to manipulate earnings and, hence, to display lower information transparency. Consistent with Hutton et al. (2009), we quantify information transparency as the sum of the absolute values of discretionary accruals over the past three years (denoted Opaque); a higher Opaque score indicates lower transparency.

We employ this three-year cumulative measure for two primary reasons. First, it captures the persistence of a firm's earnings management practices and information opacity, which is likely more relevant to long-term-oriented investors like QFIIs when making entry decisions, as it reflects a sustained governance and reporting culture rather than a single-year anomaly. Second, this approach mitigates the potential volatility inherent in single-year estimates and aligns with established practices in the literature (Hutton et al., 2009).

$$Opaque = Abs(DisAcc_{t-1}) + Abs(DisAcc_{t-2}) + Abs(DisAcc_{t-3}) \qquad (1)$$

Discretionary accruals (DisAcc) are estimated with the modified Jones model (Dechow et al., 1995). Specifically, we estimate equation (2) separately for each industry-year, obtain the fitted coefficients, and then insert them into equation (3) to derive DisAcc:

$$\frac{TA_{it}}{Asset_{it-1}} = \alpha_1 \frac{1}{Asset_{it-1}} + \alpha_2 \frac{\Delta REV_{i,t}}{Asset_{it-1}} + \alpha_3 \frac{PPE_{it}}{Asset_{it-1}} + \varepsilon_{it} \tag{2}$$

$$DisAcc_{it} = \frac{TA_{it}}{Asset_{it-1}} - (\hat{\alpha}_1 \frac{1}{Asset_{it-1}} + \hat{\alpha}_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{Asset_{it-1}} + \hat{\alpha}_3 \frac{PPE_{it}}{Asset_{it-1}}) \tag{3}$$

where TA represents total accruals (operating profit minus net cash flow from operating activities), Asset is total assets, ΔREV is the change in sales revenue, ΔREC is the change in accounts receivable, and PPE is gross property, plant, and equipment.

3.2.3   Control variables

To control for other factors that may influence QFII investment, the model includes: (1) ROA, return on assets, capturing profitability; (2) SIZE, the natural logarithm of total assets, representing firm size; (3) LEV, leverage ratio, measured as total liabilities divided by total assets; (4) BP, book-to-market ratio, calculated as shareholders' equity divided by market value, reflecting valuation characteristics; and (5) GROWTH, revenue growth rate, computed as the percentage change in annual revenue, capturing firm growth potential.

3.3   Model specification

This study employs a Logit regression model to analyze the impact of corporate information opacity on QFII investment decisions. As dependent variable (QFIID) is binary, the Logit model is appropriate for estimating the probability of QFII entry.

$$\begin{aligned} QFII_{Dit} = {} & \alpha + \beta_1 Opaque_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 BP_{it} \\ & + \beta_6 GROWTH_{it} + \gamma Year_t + \delta Industry_t + \varepsilon_{it} \end{aligned} \tag{4}$$

where QFIID is a binary variable indicating whether firm i is held by QFII in year t; Opaque represents the information opacity; ROA, SIZE, LEV, BP, and GROWTH are firm-level control variables; Year and Industry denote year and industry fixed effects controlling for temporal and sectoral heterogeneity ε is the error term.

4.   Empirical results and analysis

4.1 Descriptive statistics

The sample consists of 15,216 firm-year observations of A-share listed companies on the Shenzhen and Shanghai Stock Exchanges from 2019 to 2023. Table 1 shows the descriptive statistics where the dependent variable is QFII_D with the mean of 0.13, and the standard deviation is 0.34, ranging from 0 to 1. This indicates that only about 13% of the firms in the sample were held by QFII during the study period, suggesting that most companies had not yet attracted QFII investment and that QFII penetration in the Chinese capital market remains relatively limited.

The sample consists of 15,216 firm-year observations of A-share listed companies on the Shenzhen and Shanghai Stock Exchanges from 2019 to 2023. Table 1 shows the descriptive statistics where the dependent variable is QFII_D with the mean of 0.13, and the standard deviation is 0.34, ranging from 0 to 1. This indicates that only about 13% of the firms in the sample were held by QFII during the study period, suggesting that most companies had not yet attracted QFII investment and that QFII penetration in the Chinese capital market remains relatively limited.

Table 1. Descriptive statistics

	VARIABLES	N	Mean	SD	Min	Max
Dependent Variable	$QFII_D$	15,216	0.13	0.34	0	1
Independent Variable	Opaque	15,216	0.16	0.1	0.02	0.58
Control Variable	ROA（%）	15,216	3	6.65	-23.89	19.4
	SIZE（billion RMB）	15,216	179.77	429.41	5.13	2936.66
	LEV（%）	15,216	43.61	19.38	6.25	90.42
	BP（%）	15,216	64.16	26.83	11.46	120.92
	GROWTH（%）	15,216	11.82	34.84	-57.53	216.64

Note: QFIID is QFII holdings, taking the value of 1 if a firm is held by a QFII in a given year and 0 otherwise; Opaque: corporate information opacity; ROA: Return on Assets; SIZE: Company Size; LEV: Leverage Ratio; BP: Book-to-Market Ratio; GROWTH: Revenue Growth Rate.

For the core independent variable, Opaque, the mean is 0.16, with a standard deviation of 0.10, a minimum of 0.02, and a maximum of 0.58. This demonstrates substantial variation in corporate disclosure quality: while some firms exhibit high information transparency, others show a considerable degree of information asymmetry.

Among the control variables, ROA has a mean of 3.00% and a standard deviation of 6.65%, ranging from -23.89% to 19.40%, indicating considerable heterogeneity in firm profitability, with some firms experiencing losses. SIZE (Total assets, in 100 million RMB) has a mean of 17.977 billion RMB and a standard deviation of 42.941 billion RMB, with a minimum of 513 million RMB and a maximum of 293.666 billion RMB, reflecting large differences in firm scale and a high degree of industry concentration. LEV averages 43.61%, with a standard deviation of 19.38%, ranging from 6.25% to 90.42%, suggesting that most firms maintain moderate leverage levels, although some face relatively high financial risk. BP has a mean of 64.16% and a standard deviation of 26.83%, ranging from 11.46% to 120.92%, indicating a wide dispersion in market valuation among the sample firms. Finally, GROWTH has a mean of 11.82%

and a standard deviation of 34.84%, with a minimum of -57.53% and a maximum of 216.64%, reflecting substantial variation in firm growth: some firms exhibit rapid expansion, while others experience significant declines.

4.2 Correlation analysis

Table 2. Comparison of Firm Characteristics between QFII and Non-QFII Holdings

Variable	QFII=1 Mean	QFII=0 Mean	Mean Difference (0-1)	t-value	p-value	Significance
Opaque	0.1518	0.1607	0.0089	3.627	0.0003	***
ROA	0.0350	0.0293	-0.0058	-3.658	0.0003	***
SIZE	22.4235	22.5379	0.1144	3.652	0.0003	***
LEV	0.4220	0.4383	0.0162	3.530	0.0004	***
BP	0.5913	0.6495	0.0581	9.157	0.0000	***
GROWTH	0.1353	0.1155	-0.0198	-2.394	0.0167	**

Note: *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively. This table reports the results of mean difference tests in key characteristics between QFII-held firms (QFII = 1) and non-QFII-held firms (QFII = 0). The t-tests are conducted under the assumption of equal variances across samples. $QFII_D$: QFII holdings, taking the value of 1 if a firm is held by a QFII in a given year and 0 otherwise; Opaque: corporate information opacity; ROA: Return on Assets; SIZE: Company Size; LEV: Leverage Ratio; BP: Book-to-Market Ratio; GROWTH: Revenue Growth Rate.

Since the dependent variable QFIID is a binary variable (1 if held by QFII, 0 otherwise), Pearson correlation coefficients cannot be directly calculated. Therefore, this study employs group mean difference tests (t-tests) to examine differences in information opacity and other key control variables between QFII-held and non-QFII-held firms.

The results indicate that in terms of information opacity (Opaque), the mean value for QFII-held firms is 0.1518, which is significantly lower than 0.1607 for non-QFII-held firms, with the difference statistically significant at the 1% level (t = 3.627, p < 0.01). This suggests that QFII prefers to invest in firms with more transparent information disclosure, which is consistent with the hypothesis that transparency attracts foreign investors. Regarding control variables, the mean ROA of QFII-held firms is 0.0350, higher than 0.0293 for non-held firms, with the difference significant at the 1% level, indicating a preference for more profitable companies. The mean firm size (SIZE) for QFII-held firms is 22.4235, slightly lower than 22.5379 for non-held firms, also significant at the 1% level, suggesting that QFII favors firms of moderate size.

In terms of capital structure, QFII-held firms have a mean leverage (LEV) of 0.4220, significantly lower than 0.4383 for non-held firms, indicating a preference for financially stable companies with lower debt levels. The mean book-to-market ratio (BP) for QFII-held firms is 0.5913, significantly lower than 0.6495 for non-held firms, implying that QFII tends to invest in firms with higher market valuations. For revenue growth (GROWTH), QFII-held firms have a mean of 0.1353, higher than 0.1155 for non-held firms, with the difference significant at the 5% level, highlighting a focus on firms with higher growth potential.

Other firm characteristics are profitability, size, leverage, valuation, and growth, also differ significantly across the two groups, suggesting that QFII-held firms tend to be more profitable, less leveraged, and faster growing.

Overall, the t-test results demonstrate that firms with lower information opacity are more likely to be held by QFII, providing preliminary support for Hypothesis H1: higher information opacity reduces the probability of being held by QFII. This analysis not only confirms the importance of information transparency in shaping foreign institutional investment behavior but also lays the theoretical and empirical foundation for the subsequent Logit regression analysis.

4.3   Logistic regression analysis

As shown in Table 3, the Logit Regression results indicate that corporate information opacity (Opaque) exhibits a significantly negative coefficient (-1.102, p < 0.01), confirming that higher information opacity reduces the probability of QFII ownership. A one-unit increase in opacity decreases the likelihood of QFII entry by approximately 3%.

Table 3. Logistic Regression Results of QFII Ownership on Corporate Information Opacity

Variable	Coef.	St.Err.	z-value	P>|z|	Significance
Opaque	-1.102	0.201	-5.49	0	***
ROA	0.745	0.417	1.79	0.074	*
SIZE	-0.011	0.169	-0.06	0.949	
LEV	0.157	0.132	1.19	0.234	
BP	-0.812	0.52	-1.56	0.118	
GROWTH	-0.007	0.107	-0.07	0.948	
Year FE			Controlled		
Industry FE			Controlled		
Number of obs			15,216		
Pseudo R²			0.0339		
Log Pseudolikelihood			-5812.33		

Note: *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively. Opaque: corporate information opacity; ROA: Return on Assets; SIZE: Company Size; LEV: Leverage Ratio; BP: Book-to-Market Ratio; GROWTH: Revenue Growth Rate.

Table 4. VIF Results

Variable	VIF	1/VIF
ROA	1.48	0.67
Size	2.12	0.47
LEV	1.71	0.59
BP	1.93	0.52
Growth	1.19	0.84

ROA is positive and weakly significant (p < 0.10), indicating that profitable firms are modestly more attractive to QFII. In contrast, Size, LEV, BP, and Growth are statistically insignificant. Although these control variables show significant mean differences in univariate tests, they lose significance in the multivariate Logit model after controlling for industry and year effects. This suggests that once transparency is accounted for, traditional financial indicators become secondary. This divergence likely reflects the conditional nature of regression analysis: while large or profitable firms may be more likely to attract QFII on average, these effects disappear once opacity is controlled for. This implies that opacity acts as a first-order filter, and firms with poor disclosure are screened out regardless of their financial performance.

The model controls for both year and industry fixed effects, with a sample size of 15,216. The Pseudo R² is 0.0339, which is within a reasonable range for a binary choice model, suggesting that the model explains QFII ownership decisions to some extent. The log pseudolikelihood is -5,812.33; given the large

sample size, the high absolute value is expected. Additionally, all explanatory variables have variance inflation factors (VIFs) below 3 as shown in Table 4, ruling out multicollinearity concerns.

Overall, the regression results clearly demonstrate that higher corporate information opacity reduces the probability of being held by QFII. The marginal effects highlight that even a moderate increase in opacity can materially lower the likelihood of foreign institutional investment. This finding is consistent with the research hypothesis, confirming that the degree of information opacity in listed firms is significantly negatively related to the likelihood of QFII ownership. The results reveal that transparency is a decisive criterion for QFII's entry. Economically, a one-standard-deviation increase in opacity reduces QFII participation likelihood by about 3%, indicating that information risk remains a key obstacle to foreign capital inflow. This finding aligns with Akerlof's (1970) "market for lemons" framework, where opaque firms face adverse-selection discounts, and extends Han et al. (2022) by demonstrating that information quality matters even at the entry stage. Furthermore, the results confirm that QFII behavior in China's post-reform market emphasizes information quality over size or leverage, reflecting an institutional shift toward quality-based investment screening.

4.4 Robustness Test

Variable	Coef.	St.Err.	z-value	P>|z|	Significance
DisAcc	-1.183	0.193	-6.13	0.000	***
ROA	1.037	0.382	2.71	0.007	***
SIZE	0.003	0.167	0.02	0.987	
LEV	0.019	0.122	0.15	0.878	
BP	-0.745	0.511	-1.46	0.145	
GROWTH	-0.008	0.110	-0.08	0.939	
Year FE	Controlled				
Industry FE	Controlled				
Number of obs	15,216				
Pseudo R²	0.033				
Log Pseudolikelihood	-5817.96				

Note: *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively. DisAcc: Discretionary Accruals; ROA: Return on Assets: SIZE: Company Size; LEV: Leverage Ratio. BP:Book-to-Market Ratio; GROWTH: Revenue Growth Rate.

To ensure that the main results are not driven by the specific construction of the information opacity variable, we conduct a robustness test using a single-year measure of discretionary accruals (DisAcc) instead of the three-year cumulative proxy (Opaque).

Specifically, we re-estimate the Logit regression by replacing Opaque with the absolute value of DisAcc computed from the modified Jones model for each firm-year. The results in Table 5 shows that remain qualitatively consistent with our baseline findings. The coefficient on DisAcc is significantly negative at the 1% level, confirming that higher levels of annual earnings management, reflecting lower transparency and reduce the probability of QFII ownership. This reinforces the conclusion that information transparency, rather than other financial characteristics, is the decisive factor influencing foreign institutional entry. These robustness findings validate the stability of our results and demonstrate that QFII's investment screening is consistently sensitive to both long-term and short-term dimensions of information opacity.

5.   Conclusion

This study contributes to the literature by providing the first systematic post-reform evidence that QFII investment decisions in China are driven primarily by information transparency rather than traditional financial indicators. And, we investigate the role of information transparency in the initial foreign investment decision, thereby filling a gap in the literature regarding QFII's selection mechanism and providing empirical evidence on the economic significance of transparency in the context of an increasingly open capital market.

Using a sample of 15,216 firm-year observations from the A-share market between 2019 and 2023, this study documents a clear and economically meaningful link between information opacity and QFII presence. A one-unit increase in our opacity proxy (Opaque) reduces the probability that a firm is held by QFII by approximately 1.102 percentage points; the estimate is highly significant ($p < 0.01$). This finding confirms the theoretical prediction that opacity lowers foreign investors' willingness to enter, and it highlights the micro-level screening rule now adopted by QFII after the removal of quota constraints: information quality outweighs traditional signals such as size, leverage, or book-to-market. Profitability (ROA) is only marginally positive ($p < 0.10$), while all other controls remain insignificant, underscoring the dominant role of transparency in cross-border capital allocation.

The results carry three immediate policy and practical implications. First, regulators should continue to refine disclosure rules and strengthen penalties against earnings management, thereby lowering the verification and due-diligence costs borne by foreign investors and enhancing the attractiveness of the A-share market to long-term capital. Second, listed firms should voluntarily upgrade internal controls and appoint high-quality auditors; shrinking the scope for earnings manipulation and improving reporting credibility can create a virtuous cycle in which transparency attracts capital and capital, in turn, reinforces governance. Third, QFII's preference for transparency offers a "quality-first" template that domestic investors can emulate, directing resources toward better-governed and more informative companies and raising overall market efficiency and resilience.

Despite its clear findings, this study is subject to limitations. The identified negative association between opacity and QFII ownership, while robust, does not unequivocally establish causality due to potential endogeneity concerns. For instance, unobserved firm characteristics or reverse causality, whereby the anticipation of QFII entry prompts firms to improve transparency, could partly drive the results. Future research could employ methodologies such as instrumental variables or difference-in-differences designs to better identify causal effects.

Taken together, the evidence shows that in the new era of full capital-account openness, information transparency is not merely a prerequisite for capturing foreign long-term capital. It is a key determinant of China's international competitiveness in global financial markets. Future research could extend the analysis by incorporating textual disclosure, ESG scores, and other multidimensional transparency measures to obtain a more comprehensive picture of how foreign institutions allocate capital under varying information regimes.

Conflict of interest statement

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

References

Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. Quarterly Journal of Economics, 84(3), 488–500. https://doi.org/10.2307/1879431

Ali, M. J., Biswas, P. K., Chapple, L., & Kumarasinghe, S. (2024). Institutional ownership and earnings quality: Evidence from China. Pacific-Basin Finance Journal, 84, 102275. https://doi.org/10.1016/j.pacfin.2024.102275

Bhattacharya, U., Daouk, H., & Welker, M. (2003). The world price of earnings opacity. The accounting review, 78(3), 641-678. https://doi.org/10.2308/accr.2003.78.3.641

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. The Accounting Review, 70(2), 193–225.

Han, M., Ding, A., & Zhang, H. (2022). Foreign ownership and earnings management. International Review of Economics & Finance, 80, 114–133. https://doi.org/10.1016/j.iref.2022.02.074

Hutton, A. P., Marcus, A. J., & Tehranian, H. (2009). Opaque financial reports, R2, and crash risk. Journal of financial Economics, 94(1), 67-86. https://doi.org/10.1016/j.jfineco.2008.10.003

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance-matched discretionary accrual measures. Journal of Accounting and Economics, 39(1), 163–197. https://doi.org/10.1016/j.jacceco.2004.11.002

Li, Z., & Wang, B. (2022). The influence of foreign institutional investors on audit fees: Evidence from Chinese listed firms. Accounting Forum, 48(1), 35–62. https://doi.org/10.1080/01559982.2022.2071183

Li, Z., Wang, B., Wu, T., & Zhou, D. (2021). The influence of qualified foreign institutional investors on internal control quality: Evidence from China. International Review of Financial Analysis, 78, 101916. https://doi.org/10.1016/j.irfa.2021.101916

Liu, Y., & Zhou, Z. (2022). The influence of foreign institutional investors on audit fees: Evidence from China. Accounting & Finance, 62(6), 7535–7569. https://doi.org/10.1080/01559982.2022.2071183

Spence, M. (1973). Job market signaling. The Quarterly Journal of Economics, 87(3), 355–374. https://doi.org/10.2307/1882010

Xie, J., Yu, M., & Gao, B. (2024). The impact of foreign institutional investors on the information content of Chinese stock prices. International Review of Economics & Finance, 96, 103592. https://doi.org/10.1016/j.iref.2024.103592

Yi, Y., Yao, Q., & Su, W. (2024). Foreign ownership, subjective willing, and internal control level. Heliyon, 10(12), e32970. https://doi.org/10.1016/j.heliyon.2024.e32970

About the Authors

Yang Yaojing is a PhD candidate at the Faculty of Business and Management, Universiti Teknologi MARA (ORCID: https://orcid.org/0009-0003-0706-0639). Her primary research interests are in the field of corporate finance. She may be contacted via email at jing20200904@gmail.com.

Nor Farradila Abdul Aziz, PhD, is an Associate Professor at the Faculty of Business and Management, Universiti Teknologi MARA (ORCID: http://orcid.org/0000-0002-0226-1410). Her research expertise lies

in corporate finance, with a particular emphasis on seasoned equity offerings and market microstructure. She may be reached at norfa503@uitm.edu.my.

Authors' Contributions

Yang Yaojing conducted the research and was responsible for drafting and revising the manuscript. Nor Farradila Abdul Aziz conceptualized the core research idea and developed the theoretical framework. Both authors collaboratively designed the research methodology and supervised the research process. Nor Farradila Abdul Aziz led the literature review and granted final approval for manuscript submission.