QFII Shareholding, Internal Control and Real Earnings Management

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Abstract. This paper selects all A-share listed companies with QFII holdings in Shanghai and Shenzhen stock market from 2013 to 2018 as research objects to study the impact of QFII on the real earnings management of enterprises and to explore whether internal control plays a mediating effect in this process. The research shows that QFII can significantly inhibit the real earnings management of enterprises, and its shareholding ratio is negatively correlated with the real earnings management; The inhibitory effect of QFII on real earnings management disappeared significantly when the shareholding ratio is low; High quality internal control can significantly inhibit the enterprise's real earning management and enterprises with higher quality of internal control generally have lower degree of real earnings management; Internal control plays a part of mediating effect in the process of QFII inhibiting the real earning management of enterprises. These conclusions have certain positive significance for promoting the further development of QFII system and reasonably predicting the effect of the implementation of the new policy.

Keywords: QFII Shareholding · Internal Control · Earnings Management · Real Earnings Management

1 Introduction

1.1 The Research Background

QFII stands for Qualified Foreign Institutional Investor. QFII mechanism mainly exists in countries that have not fully opened capital account and currency exchange, and it's used as a transitional means of limited introduction of foreign capital and opening of capital market. China's QFII system has experienced more than ten years of development. On November 5, 2002, 《 The interim Measures for the Management of Domestic Securities Investment by Qualified Foreign Institutional Investors》 was issued, marking the official introduction of QFII mechanism in China. On April 3, 2012, China lowered the entry threshold of QFII and increased the investment limit of QFII by revising the Measures. In 2016, China reformed the QFII system again by abolishing the upper limit of the quota of a single institution and the requirement of the period for institutional investors to

remit funds. Until September 16, 2019, The State Administration of Foreign Exchange officially announced the cancellation of the QFII investment limit.

Earnings management refers to the adjustment of accounting profit information by enterprise management through flexible accounting policy selection or the construction of false transactions in order to maximize their own interests. Francois et al. believed that management may have strong earnings management motivation in order to report positive profits, maintain recent performance and meet analysts' expectations [5]. Therefore, earnings management is an unethical means of profit manipulation and it may reduce the quality of information disclosure of enterprises, mislead investors in their evaluation of enterprises, aggravate the information asymmetry between enterprises and stakeholders and undermine the effectiveness of capital markets.

QFII can inhibit earnings management of enterprises. If QFII wants to entry into a country's securities market, it needs to meet certain conditions, including the core requirement of not short-term speculation so it asks QFII to have the nature of medium-term or long-term investment. Li Zheng guang et al. found in their study that stable institutional investors with a long investment term belong to supervisory institutional investors and compared with transactional institutional investors with a short investment term, they have stronger enthusiasm to participate in corporate governance of enterprises and can better restrain earnings management behaviors of enterprises [12] Therefore, on the one hand, the introduction of QFII can promote the long-term development of enterprises and reduce the short-sighted behavior and speculation of management, and inhibit the degree of earnings management of enterprises. On the other hand, compared with other types of institutional investors, QFII has cutting-edge investment concepts, mature management team and a solid capital base, so they can play a better role in inhibiting earnings management.

To sum up, QFII plays a positive role in restraining corporate earnings management and improving the quality of information disclosure and improving the securities market mechanism. However, the existing literature on QFII is not perfect, especially the research on the impact of QFII on corporate real earnings management. Therefore, the study of the impact of QFII on real earnings management is of certain significance to strengthen corporate governance. At the same time, The State Administration of Foreign Exchange announced the cancellation of QFII investment quota, which means that QFII will play a greater role in corporate governance. Therefore, studying the impact of QFII on real earnings management is also of certain significance to predict the effect after the implementation of this policy. In addition, internal control, as one of the most important corporate governance mechanisms, should be included in the research framework, which is also of certain significance to enrich corporate governance theory.

1.2   Research Significance

1.2.1   Help to Strengthen the Level of Corporate Governance

At present, there are few literatures on the impact of QFII on real earnings management of enterprises, so it is difficult to know the mechanism of the impact of QFII on earnings management of enterprises. This study is helpful to understand that how QFII affects earnings management behavior of enterprises, and has positive significance for

enterprises to use QFII to restrain earnings management behavior of management and improve corporate governance.

1.2.2   Help to Promote the Development and Improvement of the QFII System

Although the QFII system has developed for more than ten years in China, it has a shorter development time compared with other countries such as South Korea and India. The securities market characteristics of each country are not completely same. This study is helpful to verify the influence of the introduction of QFII system on China's securities market to a certain extent and observe whether it has achieved the expected effect.

1.2.3   Help to Predict the Effect of the Implementation of New Policies

Existing studies generally believe that the shareholding ratio represents the voice of shareholders in enterprises and also affects the enthusiasm of investors to participate in corporate governance. The investment amount of QFII is relatively small in China's institutional investors. Therefore, in order to make QFII play a greater role in corporate governance, the country has abolished the limit on QFII investment amount.Through this study, we can reasonably predict the positive or negative impact of the implementation of the policy on earnings management behavior of enterprises and put forward corresponding countermeasures and suggestions.

1.3   The Research Content

This paper divides QFII into full sample group, high shareholding ratio group and low shareholding ratio group, and studies its influence on real earnings management of enterprises from two aspects of shareholding ratio and influence approach. The main research contents are as follows:

Whether QFII can restrain real earnings management of enterprises? Whether internal control can restrain real earnings management of enterprises? Whether internal control plays a mediating effect in the process of QFII inhibiting real earnings management of enterprises.

QFII may affect the real earnings management of enterprises through various ways, either directly or indirectly. From the perspective of enterprise internal control, this paper studies whether internal control plays an intermediary effect in the process of QFII inhibiting enterprise real earnings management, and provides a theoretical basis for the influence of QFII on enterprise real earnings management.

2   Theoretical Analysis and Research Hypothesis

2.1   FII Shareholding and Real Earnings Management

According to the information asymmetry theory, different personnel have different understandings of enterprise information. Compared with other stakeholders, the management of an enterprise has more sufficient information and they have the advantage of controlling the business. Compared with individual investors, QFII, as an institutional investor,

can obtain more sufficient information and weaken the information asymmetry with the management, and they are more willing to restrain the real earnings management behavior of enterprises.

Cheng Shuqiang found that institutional investors can effectively improve the quality of earnings information of enterprises [3]. Xia Donglin and Li Gang also came to a similar conclusion in their study and they believed that institutional investors could improve the quality of accounting earnings of listed enterprises [16]. Li Zengfu et al.studied the property rights of enterprises and found that the restraining effect of institutional investors on real earnings management was significantly weaker in state-owned enterprises than in non-state-owned enterprises [11]. Through game analysis, Li Yanxi et al. found that there was no regulatory willingness when the shareholding ratio of institutional investors was low,. Only when the shareholding ratio of institutional investors reached a certain level, would they actively supervise the earnings management behavior of enterprises [10].

At the same time, according to the second type of principal-agent problem, QFII with a low shareholding ratio assumes the role of principal as the minority shareholder of the enterprise, which may not be able to fully supervise the behavior of the major shareholder, that is, the major shareholder is still very likely to implement earnings management. Sun Guangguo et al.found that institutional investors had a significant inhibitory effect on earnings management in enterprises under the absolute control of non-major shareholders, but this inhibitory effect was not significant in enterprises under the absolute control of major shareholders [14].

In summary, hypothesis 1 and hypothesis 2 are proposed.

Hypothesis 1: QFII can restrain the real earnings management of significant enterprises, and its shareholding ratio is negatively correlated with the degree of real earnings management of enterprises.

Hypothesis 2: The inhibitory effect of QFII on real earnings management disappears significantly when the shareholding ratio is low.

2.2 Internal Control and Real Earnings Management

《Notice of Audit Standards》 defines internal control as follows: Internal control is the procedure and method of various restrictions and adjustments implemented by the unit in order to improve operating efficiency, fully and effectively obtain and use various resources and achieve established management objectives under a certain environment [1].

Yang Deming and Hu Ting found that with the improvement of internal control quality, the probability of earnings management being issued non-standard audit opinions decreased significantly [17]. Ye Jianfang et al. found that internal control defects would lead to the improvement of earnings management of enterprises from the perspective of internal control defects, and this effect would disappear after the internal control defects were corrected [8]. Cheng Xiaoke et al. believed that enterprises that disclose internal control certification reports voluntarily had a lower degree of earnings management [4].

In summary, hypothesis 3 is proposed.

Hypothesis 3: High quality internal control can significantly inhibit the real earnings management of an enterprise.

2.3 Mediation Effect of Internal Control

Li Changqing and Xing Wei found that the shareholders may influence executives' decisions by reducing executive compensation performance, so as to indirectly achieve the purpose of enhancing corporate earnings management [9]. Cao Jianxin and Chen Zhiyu believed that the introduction of institutional investors could significantly enhance the effectiveness of internal control of enterprises [2]. Zhao Huifang et al. further divided pressure-resistant and pressure-sensitive institutional investors for research, and found that pressure-resistant institutional investors had a stronger role in improving internal control [18]. Dong Huina and He Qin studied from the perspective of internal control defects and came to a similar conclusion, that is, institutional investors' shareholding can significantly reduce the internal control defects of enterprises [6]. Therefore, although QFII is willing to participate in corporate governance and restrain earnings management behavior of enterprises, according to the principal-agent theory, management rights and ownership are separated, so QFII only retains the residual claim of the enterprise and they don't directly participate in the management of the enterprise by transferring management rights. In fact, QFII cannot directly restrain the real earnings management behavior of enterprises and they need to supervise and restrain the real earnings management behavior through indirect means.

In summary, hypothesis 4 is proposed.

Hypothesis 4: Internal control plays a mediating effect in the process of QFII inhibiting the real earnings management of enterprises.

3 Study Design and Design and Data Description

3.1 The Data Source

This paper selects A-share listed companies in Shanghai and Shenzhen stock markets from 2013 to 2018 as the research object and the following data were screened out:(1) financial samples; (2) ST and *ST samples; (3) samples with missing values; (4) Extreme samples with DIB internal control index of 0. Finally, 1036 QFII shareholding samples are obtained. DIB Internal Control Index data comes from DIB internal control and risk management database, and the other data are from CSMAR and RESSET database.

3.2 Model Design and Variable Measurement

3.2.1 Model Design

a) QFII Shareholding and real earnings Management model

To verify hypothesis 1 and hypothesis 2, the following model is constructed:

$$
\begin{aligned}
RM\,(APROD/ACFO/ADISEXP) = QFII + Size + Lev + Turnover + Growth \\
+ Share1 + Big4 + Year\_ + Industry\_ + \varepsilon
\end{aligned} \tag{1}
$$

RM represents the real earnings management degree, APROD, ACFO and ADISEXP represent the abnormal product cost, abnormal operating cash flow and abnormal discretionary expense in the three manipulations respectively, and QFII represents the shareholding ratio of QFII.

b) Internal control and real earnings Management model

To verify hypothesis 3, the following model is constructed:

$$RM = Dib + Size + Lev + Turnover + Growth + Share1 + Big4$$
$$+Year\_ + Industry\_ + \varepsilon \tag{2}$$

Dib represents the index of internal control.

c) Mediation effect model of internal control

To verify hypothesis 4, the following model is constructed:

$$Dib = QFII + Size + Lev + Turnover + Growth + Share1 + Big4$$
$$+Year\_ + Industry\_ + \varepsilon \tag{3}$$

$$RM = QFII + Dib + Size + Lev + Turnover + Growth + Share1 + Big4$$
$$+Year\_ + Industry\_ + \varepsilon \tag{4}$$

This paper adopts the mediation effect test method proposed by Wen Zhonglin et al. [15]. First, it is tested whether QFII plays an inhibiting role in the real earnings management of enterprises, then whether QFII can improve the quality of internal control of enterprises, and finally whether internal control plays an intermediary effect in the process of QFII inhibiting the real earnings management of enterprises.

3.2.2 Variable Measure

a) Real earnings management

This paper also uses Roychowdhury's model to measure the degree of real earnings management of enterprises by abnormal product cost (APROD), abnormal operating cash flow (ACFO) and abnormal discretionary expense (ADISEXP). The variable RM = APROD-ACFO-ADIEXP which is constructed to measure the degree of real earnings management [13].

$$\frac{PROD_{i,t}}{A_{i,t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{A_{i,t-1}}\right) + \alpha_2\frac{\Delta SALE_{i,t}}{A_{i,t-1}} + \alpha_3\frac{\Delta SALE_{i,t-1}}{A_{i,t-1}} + \alpha_4\left(\frac{SALE_{i,t}}{A_{i,t-1}}\right) + \varepsilon_{i,t} \tag{5}$$

$$\frac{CFO_{i,t}}{A_{i,t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{A_{i,t-1}}\right) + \alpha_2\frac{\Delta SALE_{i,t}}{A_{i,t-1}} + \alpha_3\left(\frac{SALE_{i,t}}{A_{i,t-1}}\right) + \varepsilon_{i,t} \tag{6}$$

$$\frac{DISEXP_{i,t}}{A_{i,t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{A_{i,t-1}}\right) + \alpha_2\left(\frac{SALE_{i,t}}{A_{i,t-1}}\right) + \varepsilon_{i,t} \tag{7}$$

$PROD_{i,t}$ represents the production cost of company I in period T; $CFO_{i,t}$ represents the net cash flow from operating activities of Company I in period T; $DISEXP_{i,t}$ represents the discretionary expenses of company I for period T; And $\Delta SALE_{i,t}$ and

$\Delta SALE_{i,t-1}$ respectively represent the change in the operating income of company I in the two periods; $SALE_{i,t}$ represents the operating income of enterprise I in period T; $A_{i,t-1}$ represents the total assets of company I in period T-1. After annual and industry regression, the residuals obtained in models (1), (2) and (3) respectively represent the abnormal product cost (APROD), abnormal operating cash flow (ACFO) and abnormal discretionary use (ADISEXP) of enterprise I in period T. The variable RM = APROD-ACFO-ADISEXP was further constructed as a comprehensive index to measure real earnings management.

b) The internal control

Fang Hongxing and Jin Yuna found that sometimes the low quality of internal control of enterprises may mimic other voluntary disclosure internal control verification report, misleading estimates of the quality of the internal control report users, therefore there will be a large error if the quality of internal control is measured by whether the enterprise discloses the voluntary internal control certification report [7]. In this paper, DIB internal control index is selected as the basis and natural logarithm is taken as the measurement standard of enterprise internal control quality.

4   Empirical Test and Result Analysis

4.1   Descriptive Statistics and Variance Analysis

In this paper, QFII shareholding is divided into full-sample group, high-shareholding group and low-shareholding group. Three descriptive statistics are conducted on the main variables including RM, APROD, ACFO, ADISEXP, QFII and Dib, and the mean and median of the three sets of data are calculated. T test is conducted on the high-shareholding group and low-shareholding group. The results are shown in Table 1.

From the perspective of RM, under the full sample condition, the mean of RM is − 0.0942and median is −0.0498. Under the condition of high shareholding ratio, the mean

Table 1. Descriptive statistics of main variables.

	All the samples		High shareholding group		Low shareholding group		*Test*
	mean value	median	mean value	median	mean value	median	
RM	−0.0942	−0.0498	−0.1723	−0.1283	−0.0157	0.0047	9.530***
APROD	−0.0442	−0.0240	−0.0876	−0.0663	−0.0007	0.0047	8.441***
ACFO	0.0295	0.0234	0.0403	0.0382	0.0186	0.0071	−3.162***
ADISEXP	0.0205	−0.0022	0.0444	0.0118	−0.0037	−0.0127	−8.469***
QFII	0.0118	0.0074	0.0195	0.0147	0.0041	0.0040	−23.624***
Dib	6.5224	6.5367	6.5331	6.5423	6.5119	6.5301	−2.651***

Note 1) *, **, *** and are significant at 10%, 5% and 1% levels respectively

value of RM is −0.1723 and median is −0.1283. Under the condition of low shareholding ratio, the average value of RM is −0.0157 and the median value is 0.0047, This indicates that the real earnings management of enterprises with QFII shareholding in China is at a relatively low level on the whole. High stake conditions, the enterprise real earnings management level is lower than the average of low degree of real earnings management under the condition of shareholding, the average and a significant difference under the T test at 1% level, illustrate the QFII shareholding proportion higher generally are lower than those of the QFII shareholding proportion of enterprise has a lower degree of real earnings management, preliminary evidence that assumption 2 is established.

From the perspective of APROD, ACFO and ADISEXP, the results are basically consistent with real earnings management. APROD under high shareholding ratio is lower than APROD under low shareholding ratio, while ACFO and ADISEXP are higher. Moreover, the difference T test is significant at the 1% level, indicating that enterprises with higher QFII shareholding have lower manipulations of the three major factors, which further proves the validity of hypothesis 2.

From the perspective of QFII, the QFII shareholding ratio of Chinese enterprises is still at a relatively low level, with an average of only 1.18%. Even in the high proportion group, the figure is only 1.95%, and even in the low proportion group, it is only 0.41%, which provides a possible explanation for the situation described in Hypothesis 2. In other words, the low shareholding ratio limits the role of QFII in corporate governance, leading to the disappearance of significant inhibitory effect of QFII in the low shareholding ratio group on corporate real earnings management.

From the perspective of internal control quality (Dib), under the condition of full sample, the mean is 6.5224 and median is 6.5367. Under the condition of high shareholding ratio, the mean value is 6.5331 and median value is 6.5423. Under the condition of low shareholding ratio, the average value of internal control quality is 6.5119 and the median value is 6.5301, indicating that the internal control quality of Chinese enterprises has achieved great development. High stake under the condition of the internal control quality are higher than low ownership under the condition of internal quality control, and a significant difference under the T test at 1% level, so this illustrates The higher the shareholding ratio, the better the quality of internal control, preliminary evidences that the QFII shareholding can significantly improve the quality of internal control of enterprise. So The second part of the mediation effect of internal control is verified and Internal control is likely to be a mediator variable of QFII inhibiting real earnings management.

4.2   Correlation Analysis

This paper conducts correlation analysis on the main variables in the regression model, and the results are shown in Table 2.

The results show that real earnings management is significantly negatively correlated with QFII, ABPROD is significantly negatively correlated with QFII, ABCFO is significantly positively correlated with QFII, ABDISEXP is negatively correlated with QFII, but the correlation is not significant, which preliminarily proves that hypothesis 1 is valid. Real earnings management is significantly negatively correlated with the quality of internal control, abnormal product cost is significantly negatively correlated with

Table 2. Correlation analysis table for main variables.

	RM	ABPROD	ABCFO	ABDISEXP	QFII	Dib	Size	Lev	Turnover	Growth	Indep	Share1	Big4
RM	1	.846***	-.517***	-.780***	-.204***	-.133***	.009	.246***	-.087***	-.053*	-.040	-.038**	-.096***
ABPROD		1	-.073**	-.572***	-.190***	-.122***	.035	.259***	-.107***	.190***	-.031	-.024	-.083***
ABCFO			1	.206***	.046	.122***	.094***	-.091***	.045	.286***	.009	.111***	.077**
ABDISEXP				1	.198***	.026	-.073**	-.143***	.008	-.165***	.053*	.062**	.040
QFII					1	.071**	-.001	-.054*	.065**	-.004	-.081***	-.066**	-.028
Dib						1	.363***	.085***	.191***	.022	-.035	.112***	.247***
Size							1	.459***	.055*	.001	-.114***	.223***	.491***
Lev								1	.138***	-.029	-.112***	.005	.144***
Turnover									1	-.035	.019	.051*	.010
Growth										1	.000	-.002	.008
Indep											1	.015	-.063**
Share1												1	.197***
Big4													1

the quality of internal control, abnormal operating cash flow is significantly positively correlated with the quality of internal control, abnormal discretionary cost is positively correlated with the quality of internal control, but the correlation is not significant. From the perspective of internal control quality and QFII, internal control quality is significantly positively correlated with QFII.

At the same time, the correlation coefficients between explanatory variables and control variables are small, so this indicats that serious multicollinearity problems are unlikely to exist among variables.

4.3   Multiple Regression Analysis

4.3.1   QFII Shareholding and Real Earnings Management

Table 3 shows the regression results of QFII shareholding and real earnings management.

According to the regression results in the first column, the regression coefficient of QFII is −4.136, which is significant at the 1% level. This shows that QFII can significantly inhibit the real earnings management of enterprises, and its shareholding ratio is significantly negatively correlated with the degree of real earnings management of enterprises. Hypothesis 1 is valid.

Further analysis of the regression results from the second column to the fourth column shows that the regression coefficient of QFII to APROD is −2.400 and significant at 1% level, the regression coefficient to ADISEXP is 1.375 and significantly positive at 1% level, and the regression coefficient to ACFO is 0.362, but the correlation is not significant. It shows that QFII shareholding mainly inhibits real earnings management of enterprises from two aspects of APROD and ADISEXP.

4.3.2   Shareholding Ratio and Real Earnings Management

Table 4 shows the regression results of the influence of shareholding ratio on real earnings management.

Table 3. QFII shareholding and real earnings management.

variable	RM	APROD	ACFO	ADISEXP
QFII	−4.136***	−2.400***	0.362	1.375***
	(−6.495)	(−6.199)	(1.405)	(6.148)

Table 4. Influence of shareholding ratio on real earnings management.

variate	High shareholding group				Low shareholding group			
	RM	APROD	ACFO	ADISEXP	RM	APROD	ACFO	ADISEXP
QFII	−2.270***	−1.235***	0.179	0.857**	−8.486	−12.346***	−5.684*	1.824
	(−2.604)	(−2.729)	(0.768)	(2.537)	(−1.441)	(−2.881)	(−1.738)	(1.013)

As can be seen from the regression results of column 1 and column 5, the regression coefficient of QFII in column 1 is −0.270, which is significant at 1% level, indicating that QFII shareholding can significantly inhibit the real earnings management of enterprises under the condition of high shareholding ratio, and its shareholding ratio is significantly negatively correlated with the degree of real earnings management of enterprises. In the fifth column, the regression coefficient of QFII is −8.486, but the correlation is not significant, indicating that under the condition of low shareholding ratio, the significant inhibitory effect of QFII on real earnings management of enterprises disappears. Hypothesis 2 is valid.

Under the condition of high shareholding ratio, the regression coefficient of QFII and APROD is −1.235, which is significant at 1% level, and the regression coefficient of QFII and ADISEXP is 0.857, which is significant at 5% level, and the regression coefficient of QFII and ACFO is 0.179, but the correlation is not significant. So we can see that under the condition of high shareholding ratio, QFII still inhibits the real earnings management of enterprises mainly from two aspects of APROD and ADISEXP.

Under the condition of low shareholding ratio, the regression coefficient of QFII and APROD is −12.346, and significant at 1% level, the regression coefficient of QFII and ACFO is −5.684, and significant at 10% level, and the regression coefficient of QFII and ADISEXP is 1.824, but the correlation is not significant. So we can see that under the condition of low shareholding ratio, QFII can still significantly inhibit APROD, which is consistent with the group with high shareholding ratio, but its significant inhibition effect on ADISEXP disappears, and its significant positive correlation with abnormal operating cash flow, that is, under the condition of low shareholding ratio, QFII can't significantly inhibit abnormal operating cash flow, Moreover, it will significantly promote real earnings management through abnormal operating cash flow manipulation. The above two points may be the reason why the inhibitory effect of QFII on real earnings management of enterprises disappears significantly under the condition of low shareholding ratio.

4.3.3 Internal Control and Real Earnings Management

Table 5 shows the regression results of internal control and real earnings management.

It can be seen from the regression results in the first column that the regression coefficient of Dib is −0.217, which is significant at the 1% level, indicating that internal control has a significant negative effect on the real earnings management of enterprises. So we can see that the higher the quality of internal control of enterprises, the lower degree of real earnings management of enterprises. Hypothesis 3 is proved.

Further analysis of the regression results from the second column to the fourth column shows that the regression coefficient of Dib and APROD is −0.130 and significant at

Table 5. Internal control and real earnings management.

variate	RM	APROD	ACFO	ADISEXP
Dib	−0.217*** (−2.986)	−0.130*** (−2.949)	0.061** (2.112)	0.026 (1.016)

Table 6. Mediation effect of internal control.

variate	Dib	RM
QFII	0.508*	−4.039***
	(1.812)	(−6.351)

1% level, the regression coefficient of Dib and ACFO is 0.061 and significant at 5% level, and the regression coefficient of ADISEXP is 0.026, but the correlation is not significant. It shows that internal control mainly restrains the real earnings management of enterprises from two aspects of APROD and ACFO.

4.3.4   Mediation Effect of Internal Control

Table 6 shows the regression results of the mediation effect test of internal control.

The first column is the regression results of the influence of QFII on the quality of internal control of enterprises. The regression coefficient of QFII is 0.508 and significant at the level of 10%, indicating that QFII shareholding can significantly improve the quality of internal control of enterprises. Enterprises with a higher proportion of QFII shareholding generally have a higher quality of internal control. Therefore, the final mediating effect test is conducted.

The second column is the final result of the mediation effect test of internal control. The regression coefficient of Dib is −0.191, which is significant at the 1% level, indicating that internal control played a mediating effect in the process of QFII inhibiting real earnings management of enterprises. Hypothesis 4 is proved. Further analysis of the regression results in column 10 shows that the regression coefficient of QFII is −4.039, which is significant at the 1% level, indicating that QFII also plays a direct role in inhibiting the real earnings management of enterprises. Therefore, internal control plays a partial intermediary effect in inhibiting the real earnings management of enterprises.

4.3.5   Robustness Test

To make the above research more robust, we'll construct new real earnings management measurement variables RM_1 (APROD-ACFO) and RM_2 (-ACFO-ADISEXP).

1)   RM_1 robustness test

Table 7 shows the regression results of RM_1 robustness test.

According to Table 7, columns 1 to 3 are the regression results of the influence of QFII on real earnings management (RM_1) under the condition of full sample, high shareholding ratio and low shareholding ratio, the fourth is the regression results of the influence of internal control on real earnings management, and the fifth is the regression results of the mediation effect test of internal control. And we can see that the research structure is consistent with the previous regression results.

Table 7. RM_1 robustness test

variate	RM_1	RM_1	RM_1	RM_1	RM_1
QFII	−2.761*** (−5.732)	−1.414** (−2.342)	−6.662 (−1.341)		−2.673*** (−5.566)
Dib				−0.191*** (−3.496)	−0.174*** (−3.225)
N	1036	518	518	1036	1036

Table 8. RM_2 robustness test.

variate	RM_2	RM_2	RM_2	RM_2	RM_2
QFII	−1.737*** (−4.728)	−1.036** (−2.306)	3.860 (0.990)		−1.698*** (−4.621)
Dib				−0.087** (−2.089)	−0.076* (−1.843)
N	1036	518	518	1036	1036

1) RM_2 robustness test

Table 8 shows the regression results of RM_2 robustness test.

According to Table 8, the research structure is consistent with the previous regression results.

In conclusion, after RM_1 and RM_2 were used instead of RM as measurement variables of real earnings management, the regression results were consistent with the previous ones, proving that this study has good robustness.

5   Conclusion and Suggestions

The study found:

QFII can significantly inhibit the real earnings management of enterprises and its shareholding ratio is significantly negatively correlated with the degree of real earnings management of enterprises.

The inhibitory effect of QFII on real earnings management disappears significantly when the shareholding ratio is low, but remains significant when the shareholding ratio is high.

High-quality internal control can significantly inhibit the real earnings management of enterprises. The higher the quality of internal control of enterprises, the lower the degree of real earnings management.

Based on the empirical analysis, this paper puts forward the following suggestions:

First, we should further promote the development of QFII system and improve QFII-related laws and regulations. At the same time, China should issue relevant laws and

regulations to regulate the behavior of QFII and ensure that IT can effectively play the role of QFII in improving China's capital market.

Second, we should improve the internal control system, strengthen the internal supervision of enterprises. As an important part of corporate governance, internal control should be attached importance to. Through further perfecting the enterprise's internal control system, strengthening the internal supervision, so as to achieve the purpose of restraining the real earnings management and optimizing the enterprise governance.

Finally, we need to follow up the implementation of the New Deal and improve it. While seeing the positive role of the New Deal, we should also pay attention to its possible problems, carry out strict supervision and management in the implementation process of the New Deal, track its implementation, timely find and correct its problems, promote the New Deal in the implementation process of continuous improvement, promote the healthy development of China's capital market.

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