

Foreign Institutional Investors and Underperforming CEOs: Evidence from Chinese listed firms*

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Abstract

We examine the potential mechanisms through which foreign institutional investors force out underperforming CEOs. Using a sample of Chinese listed firms from 2009 to 2023, we first show a positive association between foreign institutional shareholdings and CEO turnover-performance sensitivity. We then provide evidence for two transmission channels driving this result — the quality of corporate governance and the stock price informativeness. To mitigate endogeneity concerns, we conduct a staggered difference-in-differences analysis exploiting the exogenous shock to foreign institutional ownership due to the introduction of the Shanghai/Shenzhen Hong Kong Stock Connect Program.

Keywords: Foreign institutional investors, Corporate Governance, Stock Price Informativeness, Forced CEO turnover

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1 Introduction

The rapid process of globalization has led many institutional investors to significantly expand their cross-border activities. For instance, U.S. financial institutions' investment in international equities increased from 3.9 trillion USD in 2009 to 8.3 trillion USD in 2019 (Cheng et al., 2022). The growing global importance of foreign institutional investors inspired extensive research on how these investors affect various corporate activities including dividend policy (Cao et al., 2017b), earnings management (Kim et al., 2016), auditor choices (Kim et al., 2019), firm innovation (Luong et al., 2017), company risk-taking (Boubakri et al., 2013) or voluntary disclosure (Tsang et al., 2019). One area where foreign institutional investors (FIIs) could play a particularly influential role is the sensitivity of CEO turnover to firm performance. The direction of this influence is however ambiguous. On one hand, FIIs are more independent from local management and might be therefore more willing to force out underperforming CEOs (Aggarwal et al., 2011). On other hand, FIIs can provide insurance to managers with reputational and career concerns, allowing them to focus on long-term risky projects without the fear of losing their job (Luong et al., 2017).

The evidence on the overall impact of FIIs on the relation between firm performance and CEO turnover thus seems inconclusive. Moreover, comparatively little is known about the specific channels through which FIIs affect the CEO turnover-performance sensitivity. Last but not least, most of the research on institutional investors and CEO turnover focuses on Western developed countries where the main governance conflict occurs between dispersed shareholders and managers. However, firms in most countries including the economic powerhouses of China and India often face different governance challenges. As the global importance of non-Western firms and stock markets increases, more research on the interactions between investors and CEOs in different institutional settings will be required. This paper attempts to fill in these gaps.

We examine the impact of FIIs on CEO turnover-performance sensitivity in a sample of 5,214 listed Chinese firms from 2009 to 2023. The Chinese stock market provides us with an optimal econometric framework to explore both the causal impact of FIIs on CEO turnover-performance sensitivity and the potential transmission channels driving the overall effect. China has recently implemented a series of initiatives to liberalize its equity market and attract foreign investors (Melas, 2019). One major initiative is the Shanghai/Shenzhen Hong-Kong Stock Connect Program, which

we use as a quasi-natural experiment to address the potential endogeneity between FIIs and CEO turnover. Besides providing us with our identification framework, exploring the role of foreign institutional investors in China is important in its own right. China has both the second-largest economy and the second-largest stock market, and it has become a key element in the global economy.

However, it is a priori not clear how effective FIIs are in the context of Chinese listed firms. On the one hand, Chinese listed firms face acute agency problems due to a highly concentrated ownership and an incomplete governance system, including the lack of an active takeover market, weak legal protection of investor rights, and domestic institutional investors often acting as short-term speculators (Jiang and Kim, 2020). For instance, the five largest shareholders hold on average 49.7% of shares in private firms and 53.3% in state-owned firms (Choi et al., 2023). Therefore, given their independence and resources, FIIs, especially those from developed countries with long-term investment horizons and governance expertise, may have a unique opportunity to play an essential role in China (Huang and Zhu, 2015; Bena et al., 2017). On the other hand, FIIs may have limited influence on Chinese listed firms (Ferreira et al., 2017; Shi et al., 2021). For example, Ferreira et al. (2017) document that foreign investors may encounter difficulties in accessing governance-related information due to information asymmetry, especially in non-English-speaking countries. In addition, FIIs typically own only small stakes in Chinese listed firms, potentially reducing their incentives and ability to influence firms' management.¹

To test these competing arguments, we examine the following research questions: 1) Do foreign institutional investors affect the CEO turnover-performance sensitivity (CEO TPS)? 2) Do FIIs affect CEO TPS through improved corporate governance? 3) Do FIIs affect CEO TPS through improved stock price informativeness?

We show that FIIs indeed improve CEO turnover-performance sensitivity. The likelihood of underperforming CEOs losing their position in Chinese listed firms increases when foreign institutional investors are present. We also provide evidence for two transmission channels driving this result: stock price informativeness and governance quality. The foreign institutional ownership improves stock price informativeness, which in turn increases the dependence of CEO turnover on the

¹Institutional investors can apply both voice (e.g., Maug, 1998) and exit (e.g., Edmans, 2009) when monitoring the firms. However, implementation of both these strategies can sometimes be challenging for FIIs due to their small shareholdings or concerns about their reputation (e.g., Edmans et al., 2017).

firm performance. Similarly, the entry of FIIs improves the corporate governance in a firm, leading to higher CEO turnover-performance sensitivity. The findings are robust to different measures of firm performance. Our results also remain qualitatively the same when we apply a difference-in-differences identification strategy using the Shanghai/Shenzhen Hongkong Stock Connect Program as an exogenous shock to the foreign institutional ownership.

The main focus of our paper is to look beyond the overall effect of FIIs on CEO turnover-performance sensitivity and explicitly test for two possible channels driving this effect. Existing literature has shown that FIIs have an impact on CEO turnover and firm performance (Dasgupta et al., 2018), but the specific mechanism through which this influence is exerted still needs further exploration.

Existing literature has focused on the transmission from institutional investors to CEO turnover that occurs via corporate governance, and it explored this channel mostly in the context of developed countries. For instance, Aggarwal et al. (2011) investigates the impact of foreign institutional ownership on both corporate governance and the sensitivity of CEO turnover-performance sensitivity in a group of non-U.S. Western countries. However, the findings from the U.S. or other Western countries cannot be directly applied to the rest of the world. Due to the high level of ownership concentration, the main agency conflict in China occurs between controlling and minority shareholders rather than between managers and dispersed shareholders (Jiang and Kim, 2020). The same applies also to many other countries in Global South.

There has been much less attention on possible transmission from foreign institutional investors to CEO turnover operating via stock price informativeness. Here our paper integrates two lines of research that have so far evolved separately. The first strand of literature explains how foreign institutional ownership affects market efficiency and price informativeness (He and Tian, 2013; Kacperczyk et al., 2021; Li et al., 2021). In the second strand of research, scholars examine the role of stock prices in disciplining managers and providing a feedback mechanism for firms to assess the performance of CEO (Almazan et al., 2008; Conyon and He, 2014; Gorton et al., 2017; Bennett et al., 2020). We integrate the insights of these two separate strands of literature, testing whether stock price informativeness is an effective channel for FIIs to influence CEO turnover-performance sensitivity in a firm.

We examine these issues in the context of Chinese listed firms, which brings about two advan-

tages. First, it allows us to use the Shanghai/Shenzhen Hong Kong Stock Connect as a quasi-natural experiment in our difference-in-differences identification strategy. Both the overall impact of FIIs on CEO turnover-performance sensitivity and the two underlying transmission channels might be subject to endogeneity concerns. For instance, [Gorton et al. \(2017\)](#) shows possible reverse causality from CEO turnover-performance sensitivity to stock price informativeness. In particular, corporate boards strongly reacting to the available stock market information in evaluating CEOs can discourage the informed traders from producing the relevant information in the first place.

Second, not only has China the second largest stock market and the highest number of the largest companies in the world ([Jiang and Kim, 2020](#)). Our findings have also broader relevance given that China’s corporate structure with controlling blockholders instead of dispersed shareholders is typical for the most countries in the world. Existing literature has explored the relationship between institutional ownership and CEO turnover mostly in the context of U.S. or other developed countries (e.g., [Parrino et al., 2003](#); [Bena et al., 2017](#); [Chen et al., 2019](#)). However, both economic development and legal environment differ between developed and emerging countries, giving rise to differences in the role of institutional investors in corporate decisions. For example, [Lel \(2019\)](#) and [Leuz et al. \(2009\)](#) find that the disciplining role of institutional investors is more pronounced in countries with poor corporate governance, while [Deng et al. \(2018\)](#) show that when a country’s governance is weak, ineffective investor protection and a poor information environment expose institutional investors to higher monitoring costs, preventing them from exercising their governance role. Additionally, the role played by institutional investors is often more important in countries outside of the U.S. due to reduced shareholder engagement and increased government intervention ([Chen et al., 2019](#)).

The remainder of this paper is organized as follows. Section 2 motivates our hypotheses in the context of the existing literature. Section 3 presents our sample selection process, measures of variables, and descriptive statistics. Section 4 reports our empirical analysis and addresses endogeneity problems, and Section 5 concludes the paper.

2 Literature Review and Hypothesis Development

Foreign institutional investors play an increasingly important role in local markets, sometimes being hailed as effective monitors and sometimes blamed for market crashes (e.g., [Ferreira and Matos, 2008](#); [Grinblatt and Keloharju, 2000](#)). Existing literature has explored their impact on long-term investment ([Bena et al., 2017](#)), corporate innovation ([Yi et al., 2023](#)), employee wages ([Almeida, 2007](#)), firm performance ([Gallagher et al., 2013](#)), executive compensation ([Conyon et al., 2019](#)), and board structure ([Miletkov et al., 2014](#)). Given the importance of top managers in setting strategic plans and achieving both short-and long-term targets, the potential role of FIIs in forcing out underperforming CEOs should be of particular interest.

The results in the existing literature on the effect of FIIs on CEO turnover-performance sensitivity are somewhat mixed. On the one hand, [Aggarwal et al. \(2011\)](#) provide evidence that foreign institutional ownership enhances the sensitivity of CEO turnover to firm performance. Foreign institutional ownership has a direct effect on improving a firm’s corporate governance quality, functioning as a disciplinary mechanism for terminating poorly performing CEOs. On the other hand, [Luong et al. \(2017\)](#) find that the sensitivity of CEO turnover to performance is lower in firms with greater foreign institutional ownership in non-U.S. countries. To promote corporate innovation, foreign institutional investors provide partial insurance to managers with career or reputational concerns against failure risks arising from their intensive innovation activities. In this case, a CEO with insurance is less likely to be fired because of poor firm performance. These issues are especially relevant in the context of China. [Cao et al. \(2017a\)](#) show that the CEO turnover rate for Chinese listed firms is relatively low, particularly in state-owned companies. This suggests that the management entrenchment problems could be more severe in China. When it comes to forcing the dismissal of an underperforming CEO, the entry of independent institutional investors from abroad could thus play the role of the necessary catalyst:

Hypothesis 1 *The increase in foreign institutional ownership could increase the CEO turnover-performance sensitivity in China.*

In case the above hypothesis can be confirmed, how exactly do foreign institutional investors influence the CEO turnover-performance sensitivity? The first potential channel from FII to potential

CEO dismissal could work through increased stock price informativeness (SPI). First, there is growing evidence about the positive association between foreign investors and stock price informativeness. [Henry \(2000\)](#) argues that the entry of well-informed investors increases market liquidity as they trade on their superior information. Foreign institutional investors sell "bad" firms and buy "good" firms in the domestic market, providing important signals to other investors. Retail investors follow these signals in their own trading, leading to stock prices that better reflect firms' underlying fundamentals. [Gallagher et al. \(2013\)](#) and [Kacperczyk et al. \(2021\)](#) show that the entry of FIIs with better information displaces less-informed retail investors. Moreover, [Chari and Blair Henry \(2008\)](#) find that foreign investors improve risk sharing and reduce the cost of capital through smoothing fluctuations in asset returns across states. Improvements in risk sharing and the overall market environment could also lead to better informativeness of the prevailing stock prices.

Second, the stock price informativeness should affect CEO turnover-performance sensitivity. If firm's stock price moves mostly with the overall stock market and reflects very little firm-specific information, corporate boards might not take the stock price into account when evaluating the CEO. By contrast, if the stock price contains mostly firm-specific information, stock price represents a much better measure of the CEO's effectiveness. In this case, a poor firm performance would be more likely to trigger the dismissal of CEO. [Bennett et al. \(2020\)](#) indeed shows that the CEO turnover is more (less) sensitive to firm's performance if the stock price is more (less) informative.

Combining the insights from these two strands of literature, we propose stock price informativeness as the second channel through which FIIs can increase the sensitivity of CEO turnover to firm performance. And based on the above argument about investing signals, we can expect this channel to work also when foreign institutional investors do not own large equity stakes or when retail investors play an important role in the local stock market. This transmission channel might be therefore particularly important in the context of China and other emerging countries:

Hypothesis 2 *The increase in foreign institutional ownership could increase the CEO turnover-performance sensitivity through increasing stock price informativeness.*

Another potential channel relates to the governance role of these investors. FIIs are usually more independent from the management of the domestic investee firms ([Davis and Kim, 2007](#)). Investors coming from abroad have fewer business relations with local firms, making them less

compelled to be loyal to local management teams (Aggarwal et al., 2011). FIIs also have both relatively fewer conflicts of interest inside the investee country (Ferreira and Matos, 2008) and more monitoring expertise (Gillan and Starks, 2003). The monitoring cost for FIIs might also be lower as they can access information and skills globally and apply them in firms across countries (Bena et al., 2017). These unique characteristics and skills of FIIs are particularly important in the context of the long-acknowledged role that independent corporate monitors play in forcing out underperforming top managers. For instance, while both Coughlan and Schmidt (1985) and Warner et al. (1988) show that poor firm performance increases the probability of CEO’s exit, Weisbach (1988) highlights the crucial role of independent board members in driving this result. The positive role of FIIs in improving the corporate governance in investee firms can be expected to have a similar effect. Consequently, enhancing governance quality is one possible channel through which foreign institutional investors can influence the CEO turnover-performance sensitivity:

Hypothesis 3 *The increase in foreign institutional ownership could increase the CEO turnover-performance sensitivity through improving governance quality.*

3 Data and Measures

3.1 Data and Sample

Our sample consists of all A-share listed firms in China from 2009 to 2023. We start our sample in 2009 because the 2008 financial crisis sounded the alarm for institutional investors to exert extensive monitoring on firm-level decisions (OECD, 2009). We choose 2023 as the ending year to maximize the sample interval. We collect the data of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect from the Wind database, which is a leading Chinese financial data platform providing comprehensive, real-time coverage of equities, bonds, funds, foreign exchange, derivatives, commodities, macroeconomic indicators, and financial news (Xu et al., 2020). The related data of foreign institutional shareholdings, CEO turnover, and other related firm-level financial data are obtained from the China Stock Market & Accounting Research Database (CSMAR) database. The CSMAR databases offer data on the China stock markets and the financial statements of China’s listed companies, which is commonly used by a high volume of literature (e.g., Al Mamun et al.,

2020; An et al., 2021).

Following previous studies (e.g., [Edmans and Holderness, 2017](#)), we exclude firms in the financial industry since the stringent regulations they face make financial information and board functions different from those of other firms. We also exclude firms with the trading status of S.T., *S.T., P.T., and delisting period. Firms with the trading status of S.T. (Special Treatment), *S.T. (Double Special Treatment), P.T. (Risk Warning), and delisting period are often associated with financial distress or poor corporate governance and may not be representative of the broader population of firms ([Dasgupta et al., 2018](#)). We exclude firm-year observations with a leverage ratio greater than one ([John et al., 2008](#)). By construction, the leverage ratio is defined as total liabilities divided by total assets, and values exceeding unity imply that a firm’s liabilities surpass its assets. Such cases typically indicate either data entry errors, extreme financial distress, or accounting inconsistencies. Including these outliers could bias our empirical results, so we drop these observations to ensure the robustness and validity of our analysis. After excluding observations with missing values, we finally end up with an unbalanced panel of 5214 firms and 46,250 firm-year observations. We measure all variables at the end of each calendar year and winsorize all continuous variables by year at the 2.5th and 97.5th percentiles.

3.2 Measures of Variables

3.2.1 Measures of Foreign Institutional Shareholdings

We obtain the data on foreign institutional shareholdings from the CSMAR database, which extracts the information of listed firms’ top 10 largest shareholders from firms’ annual reports. The shareholding proportion of the top 10 largest shareholders is approximately 60%, indicating that the majority of foreign institutional shareholdings should be included in the top 10 shareholder holdings. It is thus reasonable to derive a firm’s foreign institutional ownership ratio from the top 10 largest shareholders’ holdings. Within a listed company in China, the top 10 largest shareholders can be classified into 25 types, where “Qualified Foreign Investment Institutions” and “Other Overseas Institutions” include all foreign institutions in the top 10 largest shareholders. We thus construct a variable, *Foreign shareholdings*, which is the proportion of shares held by these two types of shareholders as foreign institutional shareholdings in our model.

3.2.2 Measures of Forced CEO turnover

We combine the methods of [Parrino \(1997\)](#) and [Chang and Wong \(2009\)](#) to classify CEO turnover as forced or voluntary. The [Parrino \(1997\)](#) algorithm is a classification method for CEO departures that have been applied in a large body of literature. Since there is a lack of comprehensive data in China, it is not possible to strictly adhere to the algorithm as prescribed. Hence, we also follow the method of [Chang and Wong \(2009\)](#) as they provided a classification of CEO departures among Chinese listed firms.

Specifically, we consider all CEO turnover due to “Dismissal,” “Change in governance structure,” “Resignation,” or “No reason given” to be forced. “Health,” “Change in controlling shareholders,” “Legal disputes,” or “Completion of acting duties” are counted as voluntary ([Parrino, 1997](#)). Since it is unlikely that there would be no information available if a departing CEO took up a position better than his or her previous role, we defined “No reason given” to be forced ([Chang et al., 2009](#)). For CEO turnover where the stated reason is retirement, a forced turnover is identified if the departing CEO is less than 60 years old, voluntary otherwise ([Parrino, 1997](#)).

Besides, for the reasons of “Expiration of term of office,” “Occupation mobility,” and “Personal reason,” [Chang et al. \(2009\)](#) trace the trajectory of the CEO after his departure and classify a turnover as voluntary if the CEO (a) remains as or gets promoted to the chairperson of the board or (b) becomes the CEO or chairperson of another firm with a larger size, forced otherwise. However, due to the time-consuming nature of this tracing process, we primarily consider “Expiration of term of office” and “Occupation mobility” as involuntary forced while regarding “Personal reason” as a voluntary one. The details of the classification of CEO turnover are included in Appendix A.

3.2.3 Measures of Stock Price Informativeness

The stock price nonsynchronicity, PSI, is a measure of stock price informativeness based on the R^2 from asset pricing regressions, following [Roll \(1988\)](#) and [Morck et al. \(2000\)](#). We use two asset pricing regressions to construct our two measures of stock price informativeness. In the first measure, we decompose the stock return into the systematic part explained by the market return industry return, and firm-specific residual variation. When there is relatively more firm-specific variation, the return co-moves less with the market return and the industry return, so R^2

is smaller. To perform our decomposition, we use the following linear regression:

$$R_{i,t} = \beta_0 + \beta_1 R_{m,t} + \beta_2 R_{l,t} + \epsilon_{i,t} \quad (1)$$

where $R_{i,t}$ is the stock return of firm i on week t , $R_{m,t}$ is the value weighted market return on week t , and $R_{l,t}$ is the value-weighted industry return on week t . The weights are based on market capitalization. The regression is estimated for each firm i within a year, and the R^2 of the CAPM model is used to construct PSI_CAPM for stock i in a given year as follows:

$$PSI_CAPM = \ln \left(\frac{1 - R_{CAPM}^2}{R_{CAPM}^2} \right) \quad (2)$$

In the above equation, PSI_CAPM is transformed to address the skewness and boundedness of $1 - R_{CAPM}^2$ (Morck et al., 2000). The stock price is more informative when a stock becomes less correlated with the market and industry returns (i.e. when R_{CAPM}^2 falls and hence PSI_CAPM increases).

In the second measure, we estimate annual firm-specific return variation by regressing stock returns on the three factors from the Fama-French model. For each firm-year, firm-specific return variation is estimated by $1 - R^2$ from regression

$$R_{i,t} = \beta_0 + \beta_1 R_{m,t} + \beta_2 SMB_t + \beta_3 HML_t + \epsilon_{i,t} \quad (3)$$

where SMB_t is the small-minus-big size factor return, and HML_t is the high-minus-low book-to-market factor return. We conduct our tests using a logistic transformation of $1 - R^2$:

$$PSI_FFM = \ln \left(\frac{1 - R_{FFM}^2}{R_{FFM}^2} \right) \quad (4)$$

In the above equation, PSI_FFM is transformed to address the skewness and boundedness of $1 - R_{FFM}^2$. The stock price is more informative when a stock becomes less correlated with the market and industry returns (i.e., when R_{FFM}^2 falls and hence PSI_FFM increases).

3.2.4 Measures of Corporate Governance

A large volume of extant literature (e.g., [Brown and Caylor, 2006](#); [Dutordoir et al., 2014](#); [Gompers et al., 2003](#); [Li et al., 2015](#)) use the governance index as the proxy for evaluating corporate governance quality. [Dutordoir et al. \(2014\)](#) involve 13 governance mechanisms to construct an equally weighted corporate governance index. It has been proved that using a comprehensive index reflects a company’s overall governance quality more accurately than single governance factors. It also eliminates multicollinearity that may arise in multivariate regressions when using single governance factors ([Brown and Caylor, 2006](#)). According to the data availability in the Chinese market and China’s two-tier board system, we follow [Schweizer et al. \(2019\)](#) and construct the variable *Governance Index* by using nine equally weighted corporate governance variables. The equation of the governance index is as follows:

$$Governance\ Index_{i,t} = \sum_{j=1}^9 Governance\ Mechanism_j \quad (5)$$

Each of the nine corporate governance mechanisms is a dummy variable that takes the value of 0 or 1. The Governance Index is calculated as the sum of these nine dummy variables, taking values ranging from 0 to 9. Detailed information on the construction of the index is provided in the Appendix [B](#).

3.2.5 Measures of Firm-level Characteristics

We also consider firm characteristics that may affect forced CEO turnover by including firm controls included in the literature ([Gao et al., 2017](#); [Jenter and Lewellen, 2021](#)). These controls include the tenure of the CEO (*CEO Tenure*), the age of the CEO (*CEO Age*), the Book-to-Market Ratio (*Book-to-Market Ratio*), the growth of operating revenue (*Growth of Revenue*), the firm age (*Firm Age*), the natural logarithm of total assets (*Firm Size*), the duality of CEO (*CEO Duality*), the leverage ratio (*Leverage Ratio*), the number of directors on the board (*Board Size*), the proportion of independent directors in the board (*Outside directors*), the domestic institutional shareholdings (*Domestic shareholdings*), and the percentage of shares held by CEO (*CEO Shareholdings*). Appendix [C](#) provides detailed variable definitions.

3.3 Summary Statistics

Figure 1 reports the total number and percentage of listed firms held by FIIs in the Chinese market from 2009 to 2023. The number of firms held by FIIs increases dramatically over time, as shown in the histogram. The line in the diagram demonstrates that the percentage of firms held by FIIs ranges from 20.15% to 51.10% across years and displays an increasing trend. These indicate that FIIs play an increasingly important role in the Chinese listed firms. Figure 2 shows the distribution of CEO turnover cases in the Chinese listed firms from 2009 to 2023. We identify 5,735 forced turnover cases and 1,842 voluntary turnover cases. In our sample, 84% observations are not involved with turnover issues.

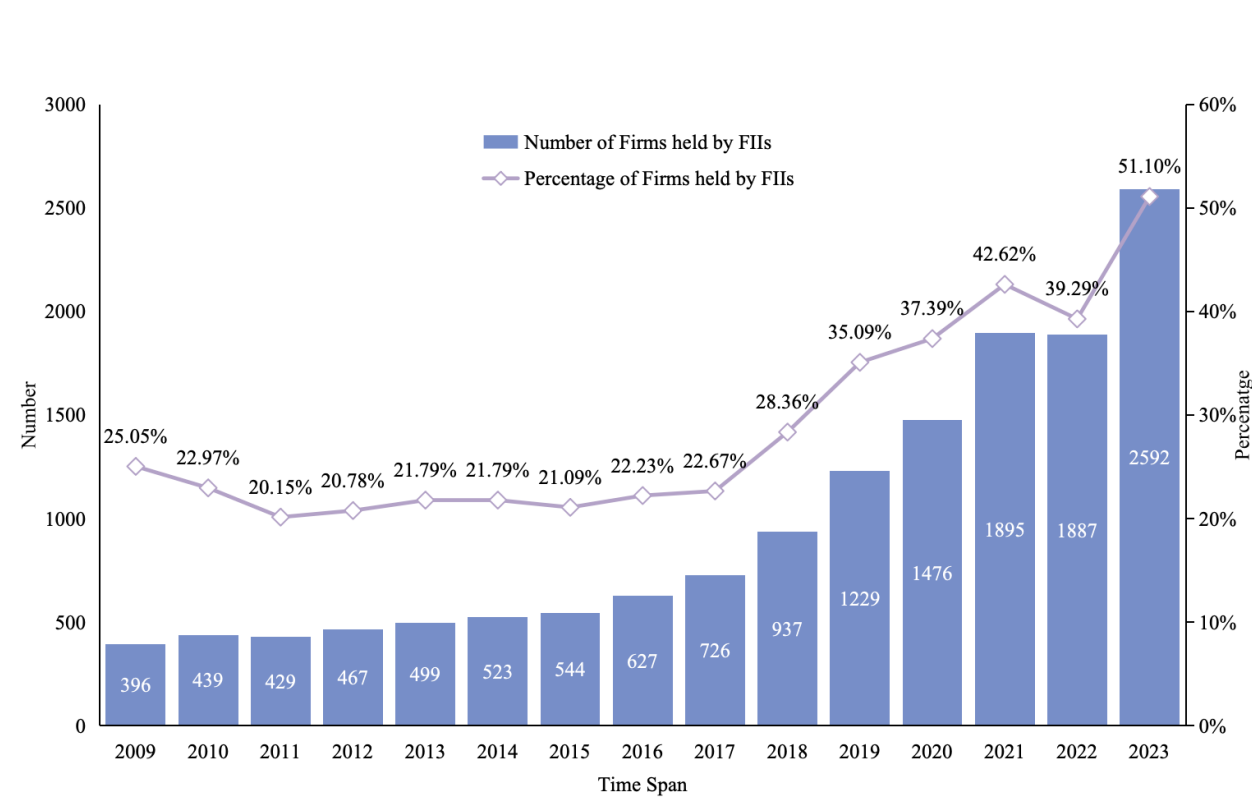


Figure 1: Distribution of Firms held by FIIs in China

This figure shows the total number and the percentage of firms held by FIIs in the Chinese market from 2009 to 2023.

Table 1 reports the descriptive statistics of all variables used in the model and presents the number of observations, mean, standard deviation, min, 25th percentile, 50th percentile, 75th percentile, and max values of these variables. On average, 2% of the equity of sample firms is held by foreign institutional investors, which is relatively low compared with that of U.S. firms

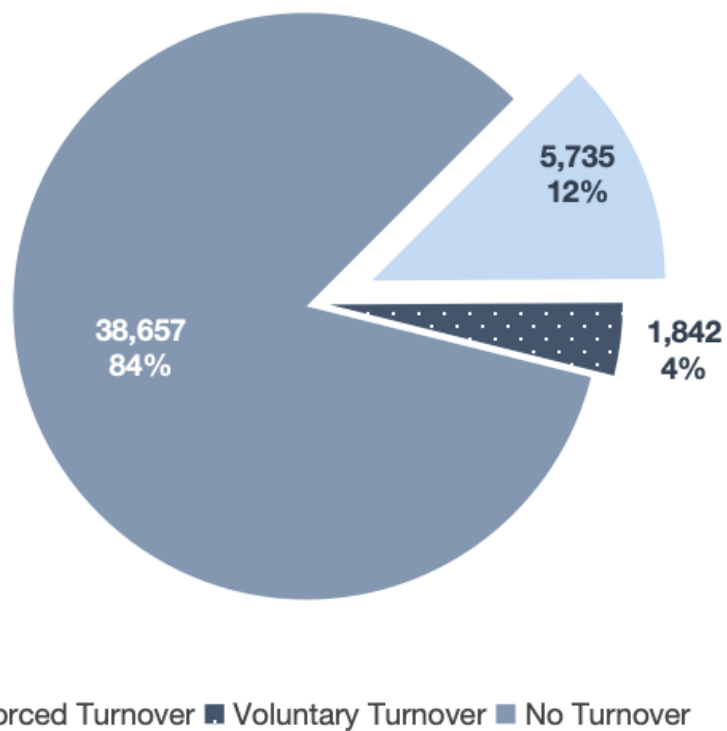


Figure 2: Distribution of CEO Turnover in Chinese listed firms
This figure shows the distribution of CEO Turnover cases in Chinese listed firms from 2009 to 2023, including forced turnover, voluntary turnover, and no turnover.

(Aggarwal et al., 2011; Bena et al., 2017). However, the statistics of *Foreign shareholdings* are consistent with prior studies focusing on the Chinese market (e.g., Chen et al., 2013), with the mean value of 3.3%. This number is similar to Huang and Zhu (2015), who also report that the average foreign institutional shareholdings is 1% in China. They also demonstrate that despite this small percentage of ownership, foreign institutional investors still play a governance role and effectively regulate management in Chinese listed firms. An average sample firm has a leverage ratio of 0.424, a Tobin’s Q of 2.196, and an annual stock return considering reinvestment of cash dividends of 0.072. In general, the descriptive statistics of other control variables resemble those in the literature.

Table 1: Summary Statistics

This table reports the statistics of variables in our sample (observation, mean, standard deviation, 25th percentile, 50th percentile, 75th percentile, and max). The sample comprises all A-share listed firms in China for the period 2009 to 2023, except financial firms and firms with abnormal trading status (e.g., Special Treatment (S.T.) and Double Special Treatment (*S.T.)). Variable definitions are provided in the Appendix C. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles.

	N	Mean	S.D	Min	p25	Median	p75	Max
Key Variables								
<i>Forced CEO Turnover</i>	46250	0.125	0.331	0.000	0.000	0.000	0.000	1.000
<i>Foreign shareholdings</i>	46248	0.033	0.084	0.000	0.000	0.000	0.008	0.406
<i>QFII Shareholdings</i>	46250	0.001	0.004	0.000	0.000	0.000	0.000	0.028
<i>Tobin’s Q</i>	44852	2.196	1.359	0.902	1.336	1.748	2.531	11.787
<i>Stock Return</i>	27823	0.072	0.490	-0.671	-0.233	-0.049	0.221	5.647
<i>PSI_CAPM</i>	29560	0.527	0.957	-1.970	-0.126	0.437	1.069	5.065
<i>PSI_FFM</i>	29560	0.303	0.850	-2.05	-0.278	0.248	0.825	3.589
<i>Governance Index</i>	32724	4.972	2.591	1.000	3.000	5.000	7.000	9.000
Control Variables								
<i>CEO Tenure</i>	45447	4.434	3.145	0.083	2.000	3.583	6.083	15.330
<i>CEO Age dummy</i>	45771	0.242	0.428	0.000	0.000	0.000	0.000	1.000
<i>Book-to-Market Ratio</i>	44852	0.537	0.264	0.069	0.327	0.502	0.722	1.177
<i>Growth of Revenue</i>	45698	0.310	0.719	-0.602	-0.039	0.120	0.393	6.921
<i>Firm Age</i>	37536	11.520	7.344	2.000	5.000	10.000	17.000	30.000
<i>Firm Size</i>	37536	22.289	1.268	19.310	21.380	22.120	23.040	25.750
<i>Leverage Ratio</i>	37536	0.424	0.205	0.075	0.283	0.438	0.597	0.997
<i>Board Size</i>	46249	8.468	1.688	0.000	7.000	9.000	9.000	18.000
<i>Outside directors(%)</i>	46245	37.615	5.588	0.000	33.330	36.360	42.860	100.000
<i>Domestic shareholdings</i>	46248	0.368	0.231	0.000	0.153	0.382	0.553	0.810

4 Baseline Regressions

4.1 Stock Connect Program

As a crucial step to integrate the A-share market with global markets, the China Securities Regulatory Commission and the Securities and Futures Commission in Hong Kong launched the Shanghai-Hong Kong Stock Connect Policy on 17 November 2014, aiming to open the domestic Chinese equity market to foreign investors. Following the announcement on November 17, 2014, the Shanghai-Hong Kong Connect allows Hong Kong or foreign investors to invest in a list of 568 stocks initially on the Shanghai Stock Exchange, accounting for 59% of the number of shares and 89% of the total market capitalization. On December 5, 2016, the Shenzhen-Hong Kong Connect program was introduced, which allows Hong Kong or foreign investors to invest in 881 stocks on the Shenzhen Stock Exchange (“Northbound Trading”). In contrast, mainland investors can also participate in “South-bound trading” on the Hong Kong Stock Exchange (SEHK).

According to the *Regulations on the Pilot Program of Shanghai–Hong Kong Stock Market Trading Connect* (CSRC, 2014) and the *Several Provisions on the Mainland–Hong Kong Stock Connect Mechanism* (CSRC, 2016), the China Securities Regulatory Commission authorizes the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) to formulate the operational rules governing Stock Connect.

At the implementation level, Article 16 of the *Implementation Measures for Shanghai–Hong Kong Stock Connect* (SSE, 2021) stipulates that eligible Shanghai Connect securities include constituents of the SSE 180 Index, constituents of the SSE 380 Index, and A-shares of companies that are dual-listed as A+H firms. The rules further exclude stocks under risk warning (ST/*ST), suspended stocks, and B-shares. Similarly, Article 16 of the *Implementation Measures for Shenzhen–Hong Kong Stock Connect* (SZSE, 2021) defines the eligibility criteria for Shenzhen Connect securities, adopting a comparable framework.

In addition, public documents issued by the SSE and Hong Kong Exchanges and Clearing Limited (HKEX) specify the quantitative criteria used to determine whether an A-share is eligible for Northbound trading. As stated on the SSE Eligibility webpage (SSE, 2024) and in the HKEX *Stock Connect Information Book for Investors* (HKEX, 2024), an eligible A-share must satisfy the following conditions over the past six months: an average daily market capitalization of at least

RMB 5 billion, an average daily turnover of at least RMB 30 million, and a suspension ratio of less than 50% of total trading days. Stocks under risk warning (ST/*ST) and other restricted securities are excluded from eligibility. Overall, the list of eligible stocks constitutes more than half of the total stocks listed on the Shanghai Stock Exchange and more than 40% of the stocks listed on the Shenzhen Stock Exchange.

The Stock Connect Program initiative effectively facilitated foreign investors' access to the domestic Chinese equity market. Prior to the Stock Connect Program, FIIs could only invest in Chinese companies through acquiring QFII licenses, which had strict limitations such as quota restrictions. Only a select group of experienced FIIs with substantial assets under management were eligible for trading under this program. In contrast, the Stock Connect framework offers greater flexibility for FIIs as it allows them to directly invest in listed firms through a centralized platform established by the Shanghai Stock Exchange and the Hong Kong Stock Exchange. This policy also eliminates minimum requirements on years of operation and assets under management, thereby extending access to smaller-scale foreign institutional investors into the Chinese market.

Following [Lei and Lu \(2024\)](#), [Chen et al. \(2022\)](#), and [Yi et al. \(2023\)](#), we apply the Stock Connect program as a quasi-natural experiment to our study because the implementation of this program allows an exogenous entry of foreign investors to trade eligible shares. Because the objective of the Stock Connect program is to attract foreign investors to invest in the domestic Chinese equity market, the policy is unlikely to influence a CEO turnover decision directly. Additionally, under the policy, only a portion of A shares firms is eligible for this program. Foreign investors can only trade the list of stocks on the Stock Connect program. The program does not impact the stocks not on the Stock Connect list. Hence, the Stock Connect Program can avoid the self-selection problem of FIIs to a large extent.

Furthermore, the implementation of the Stock Connect program is not anticipated ex-ante. Regarding the assistant director of the Stock Exchange's Capital Markets Institute: "The list of eligible firms and size of the liberalization was a surprise. Our team in charge of the implementation of Stock Connect was only informed about the specific regulations on May 15, 2017, when Premier Li made his speech" (China Securities Regulatory Commission (CSRC), 2017). Increases in foreign institutional investment ownership or changes in company management positions would not be due to the ex-ante of the Stock Connect Program. Therefore, this program could be an exogenous shock

for our Diff-in-diff analysis, increasing foreign institutional shareholdings.

4.2 Stock Connect and Forced CEO Turnover-performance sensitivity

4.2.1 PSM-DID Analysis

One concern about adopting the Stock Connect program as an identification strategy is that the selection process of eligible stock is not random. Based on the filtering criterion of the Stock Connect program, factors such as the firm size, profitability, and industry characteristics can determine whether to include a stock in this program. Therefore, the forced CEO turnover rate between a Stock Connect-eligible firm and a non-eligible firm might be different. To address this problem, we utilize the propensity score matching (PSM) approach to match each eligible firm for Shanghai- or Shenzhen-Hong Kong Stock connected with a non-eligible firm but shares similar firm characteristics including *Firm Size*, *Firm Age*, *Board Size*, *CEO Tenure*, *CEO Age*, *Growth of Revenue*, *Book-to-Market Ratio*, *Outside directors*, *Domestic shareholdings*, and *Leverage Ratio*. We apply a one-to-one nearest neighbour methodology with replacement with the caliper set to 0.01. Our post-matched sample includes 5709 firm-year observations, 3185 of which are in the treatment group, and 2524 are classified as the control group.

Table 3 reports the effectiveness of our matching procedure. We find that prior to the match, compared with the non-eligible firms, the eligible firms tend to be larger and older, with higher book-to-market ratios and higher leverage ratios. These differences, however, disappear in most of the attributes after the match. Our results suggest that our PSM procedure reduces differences between our treatment and control group.

Following [Bertrand and Mullainathan \(2003\)](#) and [Yi et al. \(2023\)](#), we apply the staggered Difference-in-Difference (DID) analysis, including two events, i.e., the Shanghai-Hong Kong Stock Connect Program and the Shenzhen-Hong Kong Connect Program. By including multiple shocks, the model eliminates potential omitted factors associated with a single shock that could coincide with changes in CEO turnover. Our regression model is as follows:

$$\begin{aligned}
\text{Forced CEO Turnover}_{i,t} = & \beta_0 + \beta_1 \text{After Stock Connect}_{i,t-1} * \text{Tobin's } Q_{i,t-1} + \beta_2 \text{Tobin}Q_{i,t-1} \\
& + \beta_3 \text{After Stock Connect}_{i,t-1} + \gamma X_{i,t-1} + \text{IndustryFE} + \text{YearFE} + \epsilon_{i,t}
\end{aligned} \tag{6}$$

where $\text{After Stock Connect}_{i,t-1}$ is a dummy variable that equals one after the stock is first included in the Shanghai- or Shenzhen-Hong Kong Stock Connect program in year $t-1$; otherwise, it equals 0. $X_{i,t-1}$ represent all control variables that are the same in the baseline regression. β_1 is the DID estimator, which captures the within-firm differences between forced CEO turnover-performance sensitivity before and after the Stock Connect program. A negative β_1 means that forced CEO turnover-performance sensitivity is more likely to increase after the firm is included in the Stock Connect Program.

Table 2 reports the DID estimation results with the pre-match and post-match samples. In columns (1) and (2), we present regression results using the full sample and the coefficients on the DID estimator are negative and statistically significant. This suggests that treatment firms, on average, increase their likelihood of dismissing a CEO with poor performance as a result of the entry of foreign institutional investors. In columns (3) and (4), we estimate using the post-match sample, and the coefficients on the DID estimator are still negative and statistically significant. Compared with firms that are not included in the Stock Connect program, firms increase their forced CEO turnover-performance sensitivity following the investment of foreign institutional investors.

We examine whether our findings of post-inclusion differences between treated and control firms reflect a trend of persistent and progressively widening differences that started before included in the Stock Connect program. To do so, we test the parallel assumption based on the post-match sample. We estimate a modified version of Eq. (6) where we only regress forced CEO turnover on the Stock Connect estimator, and we allow the effect of the Stock Connect program to be time-varying by year over SIX-YEAR window surrounding the first inclusion of Stock Connect program. The parallel trend test examines pre-treatment dynamics relative to the treatment period. Specifically, we construct a set of time dummies: *Pre3*, *Pre2*, *Pre1*, *Current*, *Post1*, and *Post2*, which indicate the number of years before and after the treatment year. For example, *Pre3* equals one if a

firm belongs to the treated group and the observation year is three years prior to the firm’s first inclusion in the Stock Connect program, and zero otherwise. *Pre1* is excluded from the regression to avoid perfect multicollinearity. This effectively treats *Pre1* as the reference period, facilitating interpretation of pre- and post-treatment effects. Following the baseline specification, we regress forced CEO turnover on the interaction between time dummies and firm performance (Tobin’s Q), such as $Pre3 \times \text{Tobin's } Q$. These indicators allow us to test whether the treated and control firms followed parallel trends prior to the policy intervention.

In [Figure 3](#), we observe that firms included in the Stock Connect program significantly increase their propensity to forced CEO turnover in the following years. There is, however, no significant difference between treatment and control firms in forced CEO turnover before the first inclusion of Stock Connect program. This result suggests, but does not prove, that the parallel trend condition, where the force CEO turnover should have parallel trends in the absence of Stock Connect program, is likely satisfied.

4.2.2 Robustness test for DID — Placebo Test

Last but not least, one possible concern is that there could still be unobservable omitted variables between the treatment group and control group, and matching based on existing covariates cannot control for those unobservable differences ([Yi et al., 2023](#)). As such, we conduct a placebo test by using the fictional adoption of the Stock Connect program to make sure that the inherent differences between the treatment and control groups do not drive our results.

We follow [Chen et al. \(2021\)](#) and [Yi et al. \(2023\)](#) to create a fictional inclusion of the eligible firm into the Stock Connect program THREE YEARS prior to the actual inclusion. Subsequently, we re-run the DiD test based on this fictional event year. If our results are primarily influenced by underlying, unobservable disparities between the treatment and control groups, these results should persist when using the fictional Stock Connect year. Specifically, we define a dummy variable, *After Stock Connect_FIC*, which takes the value of 1 after the firm is first included in the fictional Stock Connect program and 0 otherwise. In [Table 4](#), we show that the coefficients of *After Stock Connect_FIC* and *After Stock Connect_FIC*Tobin’s Q* are insignificant in all regressions. This implies that the unobservable differences between treatment and control groups did not affect our results.

Table 2: PSM-DID analysis

This table reports results in our PSM-DID specification. From columns (1) to (2), we use the full sample. From columns (3) to (4), we use the sample after propensity score matching. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	Pre-match		Post-match	
	(1)	(2)	(3)	(4)
	Forced CEO Turnover		Forced CEO Turnover	
After Stock Connect*Tobin's Q	-0.016*** (0.002)	-0.008*** (0.003)	-0.025*** (0.009)	-0.016* (0.009)
After Stock Connect	0.049** (0.009)	0.016* (0.010)	0.004 (0.038)	-0.015 (0.039)
Tobin's Q	0.002 (0.001)	0.002 (0.002)	0.011*** (0.004)	0.016*** (0.005)
CEO Tenure		-0.004*** (0.001)		-0.005*** (0.001)
CEO Age		0.043*** (0.006)		0.061*** (0.012)
Book-to-Market Ratio		0.040*** (0.015)		0.026 (0.044)
Growth of Revenue		0.005*** (0.002)		0.000 (0.002)
Firm Age		0.003*** (0.000)		0.003*** (0.001)
Firm Size		-0.005* (0.003)		-0.001 (0.013)
Leverage Ratio		0.064*** (0.015)		0.087*** (0.029)
Board Size		0.004** (0.002)		0.004 (0.004)
Outside directors		0.001 (0.001)		0.001 (0.001)
Domestic shareholdings		0.057*** (0.012)		0.076*** (0.022)
N	27060	21062	5590	5590
Adjusted R-squared	0.008	0.023	0.006	0.023
IndustryFE	YES	YES	YES	YES
YearFE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES

Table 3: Mean comparison before and after the PSM

This table compares firm characteristics between the eligible firms of Stock Connect and other firms before matching and after matching. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	Non-eligible Firm (Control)		Eligible Firm (Treatment)		
	(1)	(2)	(3)	(4)	(5)
	N	Mean	N	Mean	Difference (4)-(2)
Pre-match					
Firm Size	7987	21.318	12967	22.829	1.512***
Firm Age	7987	9.957	12967	11.363	1.405***
Board Size	11199	8.148	16016	8.738	0.591***
CEO Tenure	10902	4.231	15903	4.418	0.188***
CEO Age	10972	0.242	16002	0.236	-0.007
Growth of Revenue	10989	0.461	15841	0.422	-0.038
Book-to-Market Ratio	10778	0.496	15540	0.529	0.032***
Outside directors	11198	37.627	16014	37.511	-0.116***
Domestic shareholdings	11200	0.300	16015	0.412	0.112***
Leverage Ratio	7987	0.409	12967	0.456	0.048***
Post-match					
Firm Size	2524	21.743	3185	21.484	-0.260**
Firm Age	2524	10.031	3185	9.529	-0.502
Board Size	2524	8.504	3185	8.393	-0.111*
CEO Tenure	2524	4.557	3185	4.611	0.053
CEO Age	2524	0.189	3185	0.204	0.015
Growth of Revenue	2524	0.490	3185	0.444	-0.046
Book-to-Market Ratio	2524	0.529	3185	0.536	0.007
Outside directors	2524	37.312	3185	37.511	0.200
Domestic shareholdings	2524	0.351	3185	0.323	-0.029**
Leverage Ratio	2524	0.432	3185	0.418	-0.013*

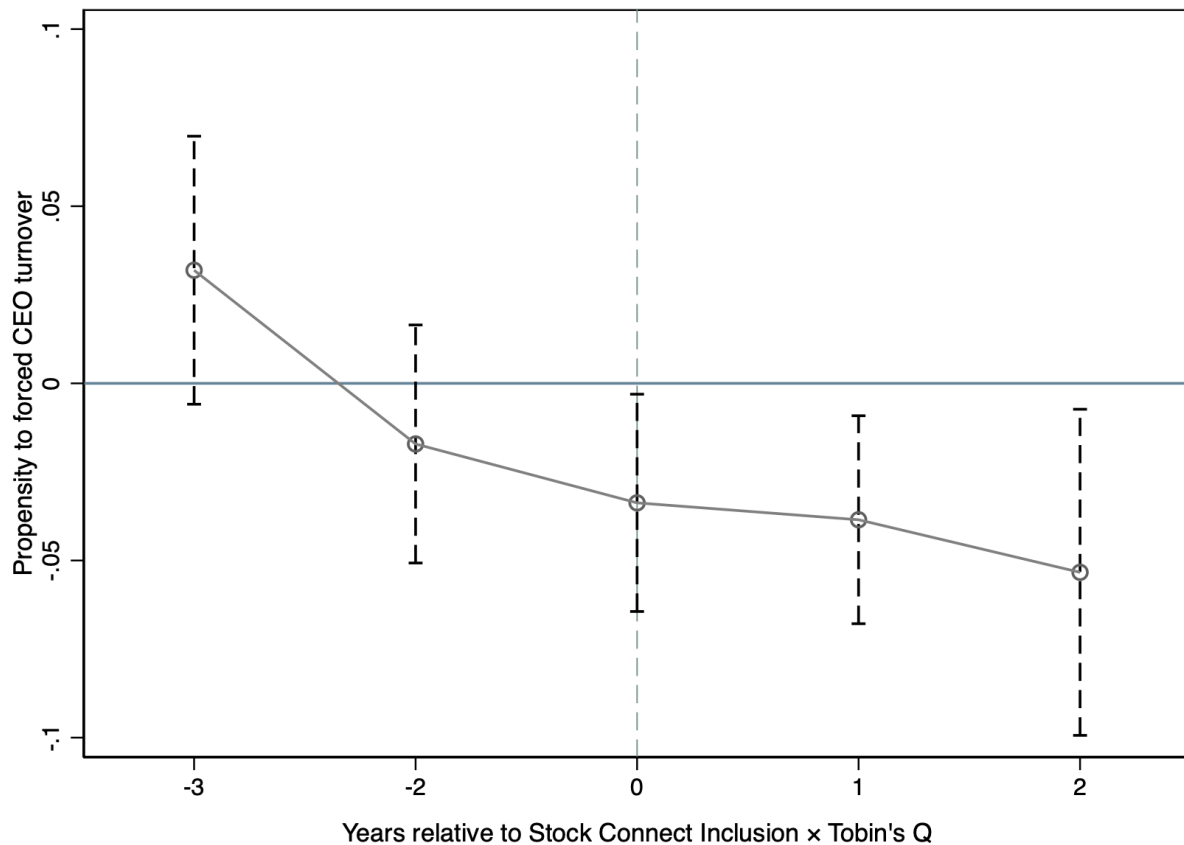


Figure 3: Parallel trend assumption

This figure illustrates the difference in forced CEO turnover between eligible and non-eligible firms in the Stock Connect program using the post-match sample. The y-axis reports the differential likelihood of forced CEO turnover, while the x-axis displays event-time indicators interacted with Tobin's Q (e.g., Pre3 × Tobin's Q, Pre2 × Tobin's Q, Current × Tobin's Q, Post1 × Tobin's Q, Post2 × Tobin's Q).

Table 4: Placebo tests

This table reports endogeneity tests using the placebo test method. The dummy variable, *After Stock Connect_FIC* equals to 1 for firms that belong to the frictional Stock Connect program, and 0 otherwise. The dependent variable is *Forced CEO Turnover*. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)
	Forced CEO Turnover	
After Stock Connect_FIC	0.011 (0.010)	0.013 (0.010)
Tobin's Q	-0.034 (0.027)	-0.034 (0.027)
After Stock Connect_FIC*Tobin's Q	0.011 (0.007)	0.014* (0.008)
Firm Size		0.016 (0.019)
Firm Age		0.005*** (0.001)
Board Size		0.004 (0.005)
CEO Tenure		-0.005*** (0.002)
CEO Age		0.046*** (0.016)
Growth of Revenue		0.003 (0.004)
Book-to-Market Ratio		-0.003 (0.060)
Outside directors		0.002 (0.002)
Domestic shareholdings		0.082*** (0.032)
Leverage Ratio		0.055 (0.038)
N	3119	3119
Adjusted R-squared	0.011	0.030
IndustryFE	YES	YES
YearFE	YES	YES
Cluster by Firm	YES	YES

4.3 Foreign institutional shareholdings and Forced CEO Turnover-performance sensitivity

Given that the Stock Connect Program aims to attract additional FIIs, we employ foreign institutional shareholdings as a proxy for FIIs entry. Following [Aggarwal et al. \(2011\)](#) and [Dasgupta et al. \(2018\)](#), we investigate the effect of foreign institutional shareholdings on CEO turnover-performance sensitivity using the following model:

$$\begin{aligned} \text{Forced CEO Turnover}_{i,t} = & \beta_0 + \beta_1 \text{Foreign Shareholdings}_{i,t-1} * \text{Tobin's } Q_{i,t-1} + \beta_2 \text{Tobin}Q_{i,t-1} \\ & + \beta_3 \text{Foreign Shareholdings}_{i,t-1} + \gamma X_{i,t-1} + \text{IndustryFE} + \text{YearFE} + \epsilon_{i,t} \end{aligned} \quad (7)$$

where *Forced CEO Turnover*_{*i,t*} is a dummy variable equal to 1 if the forced CEO turnover occurs in the year *t*. *Foreign Shareholdings*_{*i,t-1*} represents the foreign institutional shareholdings in the firm, while *Tobin's Q*_{*i,t-1*} is the measure of firm performance. *X*_{*i,t-1*} represents the vector of control variables that potentially influence CEO turnover. Following existing papers on FIIs and CEO turnover (e.g., [Parrino, 1997](#)), we control for firm characteristics that may affect our empirical results by including the tenure of the CEO (*CEO Tenure*), the age of the CEO (*CEO Age*), the Book-to-Market Ratio (*Book-to-Market Ratio*), the growth of operating revenue (*Growth of Revenue*), the firm age (*Firm Age*), the natural logarithm of total assets (*Firm Size*), the leverage ratio (*Leverage Ratio*), the number of directors on the board (*Board Size*), the proportion of independent directors in the board (*Outside directors*), and the domestic institutional shareholdings (*Domestic shareholdings*). We lag all explanatory variables by one year because the effect of these variables on forced CEO turnover is unlikely to be instantaneous ([Chen et al., 2019](#); [Dasgupta et al., 2018](#); [Aggarwal et al., 2011](#)).

[Table 5](#) provides regression results of Equation (7). Column (1) shows the regression result that we only regress *Forced CEO turnover* on *Tobin's Q*, *Foreign shareholdings*, and their interaction term. Column (2) reports the results if we include all control variables. The key variable of our interest is the interaction term (*Tobin's Q*Foreign shareholdings*), and the coefficient β_1 captures the impact of FIIs on forced CEO turnover-performance sensitivity. In columns (1) and (2), the co-

efficients of the interaction term are both negative and statistically significant, with values of -0.021 and -0.023. For example, in column (2), one standard deviation increase in Foreign shareholdings would lead to increase in forced CEO turnover-performance sensitivity. The findings are consistent with our Hypothesis 1. Consistent with the empirical findings gained from non-U.S. western countries by [Aggarwal et al. \(2011\)](#), we document that foreign institutional investors would increase the likelihood of forced CEO turnover when the firm performs poorly.

5 Channel Tests

5.1 Stock Connect and Potential Channels

5.1.1 Stock Connect and Stock Price Informativeness

To better understand how FIIs influence the relationship between forced CEO turnover and firm performance, we examine one potential mechanism—stock price informativeness. Here, we use *Stock Connect* as the independent variable to show the impact of increased FIIs on forced CEO turnover. We employ two commonly used measures of stock price informativeness, *PSI_CAPM* and *PSI_FFM*. Following the approach of [Ng et al. \(2016\)](#), we test the potential channel of Stock Connect through the following models:

$$PSI_{i,t} = \gamma_0 + \gamma_1 After Stock Connect_{i,t-1} + \partial X_{i,t-1} + IndustryFE + YearFE + \epsilon_{i,t} \quad (8)$$

$$\begin{aligned} Forced\ CEO\ Turnover_{i,t} = & \delta_0 + \delta_1 After\ Stock\ Connect_{i,t-1} * PSI_{i,t-1} * Tobin's\ Q_{i,t-1} \\ & + \delta_2 After\ Stock\ Connect_{i,t-1} * PSI_{i,t-1} \\ & + \delta_3 After\ Stock\ Connect_{i,t-1} * Tobin's\ Q_{i,t-1} + \delta_4 PSI_{i,t-1} * Tobin's\ Q_{i,t-1} \\ & + \delta_5 After\ Stock\ Connect_{i,t-1} + \delta_6 PSI_{i,t-1} \\ & + \delta_7 Tobin's\ Q_{i,t-1} + \gamma X_{i,t-1} + IndustryFE + YearFE + \epsilon_{i,t} \end{aligned} \quad (9)$$

In these equations, PSI represents two measures of stock price informativeness: *PSI_CAPM*, based on stock price nonsynchronicity from the CAPM model, and *PSI_FFM*, based on nonsynchronicity

Table 5: FIIs and CEO turnover-performance sensitivity

This table reports the impact of FIIs on CEO turnover-performance sensitivity. The dependent variable is Forced CEO Turnover and the key explanatory variable is the interaction term *Foreign shareholdings * Tobin's Q*. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in both models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

		(1)	(2)
	Exp. Sign	Forced CEO Turnover	
Foreign shareholdings * Tobin's Q	-	-0.021** (0.009)	-0.023** (0.009)
Foreign shareholdings		-0.012 (0.028)	0.052 (0.034)
Tobin's Q		-0.001 (0.001)	0.002 (0.002)
CEO Tenure			-0.004*** (0.001)
CEO Age			0.044*** (0.005)
Book-to-Market Ratio			0.044*** (0.012)
Growth of Revenue			0.004*** (0.001)
Firm Age			0.003*** (0.000)
Firm Size			-0.006*** (0.002)
Leverage Ratio			0.082*** (0.012)
Board Size			0.002 (0.001)
Outside directors			0.000 (0.000)
Domestic shareholdings			0.064*** (0.010)
N		38791	31405
Adjusted R-squared		0.007	0.022
IndustryFE		YES	YES
YearFE		YES	YES
Cluster by Firm		YES	YES

from the Fama–French three-factor model. All other control variables remain consistent with Equation (7).

Equation (8) examines whether Stock Connect program enhances stock price informativeness. Equation (9) focuses on the triple interaction term, $PSI * Tobin's Q * After Stock Connect$, whose coefficient captures how Stock Connect affects the sensitivity of forced CEO turnover to firm performance through improved stock price informativeness.

Table 6 reports the regression results based on Equation (8) and (9). Columns (1) and (2) show the results if we use PSI_CAPM as the measure of stock price informativeness. In column (1), the impact of stock connect on PSI_CAPM is positive and statistically significant at the 1% level. In column (2), the coefficient of the triple interaction term is -0.012 and statistically significant at the 10% level. Columns (3) and (4) show the results if we use PSI_FFM as the measure of stock price informativeness. In column (3), the coefficient of *After Stock Connect* (0.043) is positive and statistically significant at the 5% level. In column (4), the coefficient of the triple interaction term, $PSI_FFM * Tobin's Q * After Stock Connect$ is -0.020 and statistically significant at the 5% level. Overall, the results indicate that stock price informativeness serves as a potential channel driving the increased sensitivity of forced CEO turnover to firm performance following inclusion in the Stock Connect Program.

5.1.2 Stock Connect and Governance Index

$$Governance Index_{i,t} = \gamma_0 + \gamma_1 After Stock Connect_{i,t-1} + \partial Z_{i,t-1} + IndustryFE + YearFE + \epsilon_{i,t} \quad (10)$$

$$\begin{aligned} Forced\ CEO\ Turnover_{i,t} = & \delta_0 + \delta_1 After Stock Connect_{i,t-1} * Governance Index_{i,t-1} * Tobin's Q_{i,t-1} \\ & + \delta_2 After Stock Connect_{i,t-1} * Governance Index_{i,t-1} \\ & + \delta_3 After Stock Connect_{i,t-1} * Tobin's Q_{i,t-1} \\ & + \delta_4 Governance Index_{i,t-1} * Tobin's Q_{i,t-1} \\ & + \delta_5 After Stock Connect_{i,t-1} + \delta_6 Governance Index_{i,t-1} \\ & + \delta_7 Tobin's Q_{i,t-1} + \gamma Z_{i,t-1} + IndustryFE + YearFE + \epsilon_{i,t} \end{aligned} \quad (11)$$

Table 6: Channel Tests: Stock Connect and Stock Price Informativeness

This table examines whether stock price informativeness serves as a transmission channel through which firms' inclusion in the Stock Connect program affects CEO turnover–performance sensitivity. Columns (1) and (2) use *PSI_CAPM* as the measure of stock price informativeness, calculated as stock price nonsynchronicity based on the R^2 from the CAPM model. Columns (3) and (4) use *PSI_FFM*, which is stock price nonsynchronicity based on the R^2 from the Fama–French three-factor model. The variable *After Stock Connect* is a dummy equal to 1 for all firm-year observations beginning in the first year a firm becomes eligible for Stock Connect. In columns (1) and (3), we regress stock price informativeness on *After Stock Connect*. In columns (2) and (4), we include the triple interaction term to test whether stock price informativeness is a potential channel through which Stock Connect inclusion influences CEO turnover–performance sensitivity. All explanatory variables are lagged by one year. Industry- and year-fixed effects are included in all models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at the 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)
	PSI_CAPM	Forced CEO Turnover	PSI_FFM	Forced CEO Turnover
After Stock Connect	0.058*** (0.022)	0.011 (0.017)	0.043** (0.019)	0.006 (0.017)
After Stock Connect*Tobin's Q*PSI_CAPM		-0.012* (0.006)		
After Stock Connect*Tobin's Q*PSI_FFM				-0.020** (0.009)
After Stock Connect*Tobin's Q		-0.002 (0.008)		0.001 (0.008)
After Stock Connect*PSI_CAPM		0.017 (0.015)		
Tobin's Q*PSI_CAPM		0.009*** (0.003)		
PSI_CAPM		-0.009 (0.007)		
Tobin's Q		-0.002 (0.003)		-0.000 (0.003)
After Stock Connect*PSI_FFM				0.024 (0.020)
Tobin's Q*PSI_FFM				0.008* (0.004)
PSI_FFM				-0.007 (0.009)
N	21062	19896	19896	19068
Adjusted R-squared	0.317	0.022	0.326	0.021
Controls	YES	YES	YES	YES
IndustryFE	YES	YES	YES	YES
YearFE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES

where *Governance Index* denotes a corporate governance index that reflects the governance quality in a firm. The larger the value of *Governance Index*, the better the quality of governance of the firm. $Z_{i,t-1}$ represents a series of control variables including *Book-to-Market Ratio*, *Growth of Revenue*, *Firm Age*, *Firm Size*, *Leverage Ratio*, and *Domestic shareholdings*. It differs from the baseline regression because the *Governance Index* already incorporates several firm-level characteristics, and including these variables again in the same specification would create redundancy. Accordingly, we exclude *Board Size* and *Outside Directors* from regressions, as both variables are components of the governance index. We also omit *CEO Tenure* and *CEO Age*, since the Governance Index embeds the related attributes Chairman Tenure and Chairman Age, and in many firms the CEO simultaneously serves as chairman, leading to overlapping information. In the Equation (10), we examine whether the Stock Connect Program could influence the corporate governance quality in a firm. In the Equation (11), we construct a three-way interaction of *After Stock Connect*, *Governance Index*, and *Tobin's Q* to investigate whether corporate governance could be a possible channel to improve the forced CEO turnover-performance sensitivity.

Table 7 reports the regression results based on Equation (10) and (11). Column (1) shows that corporate governance quality significantly increased after being included in the Stock Connect program, even at the 1% significance level. In column (2), the coefficient of the triple interaction term, *Governance Index**Tobin's Q**After Stock Connect* is -0.003 and statistically significant at the 5% level. This result shows that improved governance quality appears to be an underlying economic channel through which FIIs affect CEO turnover-performance sensitivity.

5.1.3 Stock Connect and Horse Race

Consistent with our evidence and prior studies, foreign institutional investors hold relatively small stakes in Chinese listed firms (e.g., Allen et al., 2005; Cao et al., 2017a). We argue that, when it comes to enhancing CEO turnover-performance sensitivity, the stock price informativeness channel is likely to be more effective than the corporate governance channel. The reason is straightforward: effective governance typically requires a sufficiently large ownership stake for foreign investors to exert influence on board decisions or disciplinary actions (Aggarwal et al., 2011; Shleifer and Vishny, 1986). However, stock price informativeness operates differently: even with relatively small shareholdings, foreign investors can improve the information environment by impounding private

Table 7: Channel Tests: Stock Connect and Corporate Governance

This table reports the impact of firm inclusion in the Stock Connect program on CEO turnover–performance sensitivity through corporate governance. In column (1), we regress *Governance Index*, a measure of corporate governance quality, on *After Stock Connect*. The variable *After Stock Connect* is a dummy equal to 1 for all firm-year observations beginning in the first year a firm becomes eligible for the Stock Connect program, and 0 otherwise. In column (2), we include the triple interaction term to test whether corporate governance is a possible channel through which Stock Connect inclusion affects the CEO TPS. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1) Governance Index	(2) Forced CEO Turnover
After Stock Connect	0.757*** (0.087)	-0.022 (0.021)
After Stock Connect*Tobin's Q*Governance Index		-0.003** (0.001)
After Stock Connect*Tobin's Q		0.003 (0.007)
After Stock Connect*Governance Index		0.007* (0.004)
Tobin's Q*Governance Index		-0.000 (0.001)
Tobin's Q		0.003 (0.004)
Governance Index		0.001 (0.002)
Growth of Revenue	-0.004 (0.009)	0.005*** (0.002)
Firm Age	-0.023*** (0.006)	0.003*** (0.000)
Firm Size	0.464*** (0.043)	-0.004 (0.003)
Domestic Shareholdings	1.122*** (0.188)	0.067*** (0.012)
Leverage Ratio	0.121 (0.205)	0.068*** (0.015)
Book-to-Market Ratio	-0.333* (0.176)	0.038** (0.016)
N	21253	20992
Adjusted R-squared	0.088	0.018
IndustryFE	YES	YES
YearFE	YES	YES
Cluster by Firm	YES	YES

information and trading signals into stock prices (Morck et al., 2000; Durnev et al., 2004). These price signals provide valuable information to boards of directors, thereby strengthening the link between firm performance and CEO turnover, independent of ownership concentration.

As shown in the Table 8, regardless of whether we measure stock price informativeness using *PSI_CAPM* or *PSI_FFM*, the estimated coefficients and their magnitudes are consistently larger than those associated with the corporate governance channel. This empirical pattern corroborates our theoretical argument: in the Chinese setting, where foreign institutional investors typically hold relatively small stakes, the governance channel is weaker, whereas the informativeness channel—operating through the price signals that foreign investors embed into the market—plays a more significant role in enhancing CEO turnover–performance sensitivity.

5.2 Foreign institutional shareholdings and Potential Channels

While Section 5.1 exploits the Stock Connect program as an exogenous policy shock to foreign institutional investor (FII) entry, this subsection adopts a complementary approach by using foreign institutional shareholdings as a continuous measure of FII presence. Both variables capture the increased influence of FIIs, but from different perspectives: the Stock Connect program reflects an extensive-margin increase in foreign access, whereas foreign shareholdings measure the intensive margin of foreign ownership within firms.

Examining these two measures in parallel allows us to assess whether the transmission channels identified in Section 5.1 are robust to an alternative, ownership-based proxy for FIIs. Importantly, the objective of this subsection is not to introduce new mechanisms, but to verify whether stock price informativeness and corporate governance continue to operate as channels when FII influence is captured by ownership intensity rather than policy-induced entry.

5.2.1 Foreign institutional shareholdings and Stock Price Informativeness

Building on the evidence from the Stock Connect setting, we next examine whether stock price informativeness also serves as a transmission channel when FII influence is measured by foreign institutional shareholdings. Conceptually, this analysis mirrors Section 5.1.1, with the key difference being that foreign shareholdings capture variation in the intensity of foreign ownership across firms and over time, rather than a discrete policy shock.

Table 8: Channel Tests: Stock Connect and Horse Race

	(1) Forced CEO Turnover	(2) Forced CEO Turnover
After Stock Connect*Tobin's Q*PSI_CAPM	-0.014** (0.006)	
After Stock Connect*Tobin's Q*PSI_FFM		-0.021*** (0.008)
After Stock Connect*Tobin's Q*Governance Index	-0.001 (0.002)	-0.001 (0.002)
PSI_CAPM	0.005 (0.013)	
After Stock Connect*PSI_CAPM	0.019 (0.015)	
Tobin's Q*PSI_CAPM	0.009*** (0.003)	
After Stock Connect*Governance Index	0.004 (0.005)	0.002 (0.005)
After Stock Connect*Tobin's Q	0.005 (0.013)	0.004 (0.014)
Tobin's Q*Governance Index	-0.002** (0.001)	-0.002** (0.001)
After Stock Connect	-0.021 (0.032)	-0.013 (0.033)
Tobin's Q	0.004 (0.005)	0.005 (0.005)
Governance Index	0.003 (0.002)	0.003 (0.002)
After Stock Connect*PSI_FFM		0.031 (0.019)
Tobin's Q*PSI_FFM		0.009*** (0.003)
PSI_FFM		-0.011 (0.008)
N	20077	19631
Adjusted R-squared	0.018	0.018
Controls	YES	YES
IndustryFE	YES	YES
YearFE	YES	YES
Cluster by Firm	YES	YES

Following [Ng et al. \(2016\)](#), we first examine whether foreign institutional shareholdings are associated with higher stock price informativeness, using both PSI_{CAPM} and PSI_{FFM} . We then test whether stock price informativeness strengthens the sensitivity of forced CEO turnover to firm performance through a triple interaction specification. To maintain comparability with the Stock Connect analysis, the econometric framework is identical to that in Section 5.1, with *After Stock Connect* replaced by *Foreign Shareholdings*.

$$PSI_{i,t} = \gamma_0 + \gamma_1 Foreign\ Shareholdings_{i,t-1} + \partial X_{i,t-1} + IndustryFE + YearFE + \epsilon_{i,t} \quad (12)$$

$$\begin{aligned} Forced\ CEO\ Turnover_{i,t} = & \beta_0 + \beta_1 Foreign\ Shareholdings_{i,t-1} \times PSI_{i,t-1} \times Tobin's\ Q_{i,t-1} \\ & + \text{Lower-order interactions} + \gamma X_{i,t-1} + Industry\ FE + Year\ FE + \epsilon_{i,t}. \end{aligned} \quad (13)$$

The results, reported in [Table 9](#), show that higher foreign institutional ownership is associated with greater stock price informativeness. More importantly, the coefficient on the triple interaction term is negative and statistically significant, indicating that foreign institutional investors enhance CEO turnover–performance sensitivity by improving the information content of stock prices. These findings are fully consistent with those obtained using the Stock Connect program, reinforcing the role of the informativeness channel.

5.2.2 Foreign institutional shareholdings and Governance Index

We next examine whether improvements in corporate governance constitute a potential transmission channel through which FIIs strengthen forced CEO turnover–performance sensitivity when FII presence is measured by foreign institutional shareholdings. Following the framework in Section 5.1.2, we estimate a first-stage specification relating governance quality to foreign institutional ownership and then test whether governance amplifies the sensitivity of forced CEO turnover to firm performance via a triple interaction term.

Specifically, we regress the governance index on lagged foreign institutional shareholdings, and then estimate the forced-turnover model that includes the interaction between foreign shareholdings,

Table 9: Channel Tests: Foreign Shareholdings and stock price informativeness

This table reports the impact of foreign institutional shareholdings on CEO turnover-performance sensitivity through stock price informativeness. Columns (1) and (2) use *PSI_CAPM* as the measure of stock price informativeness, which is stock price nonsynchronicity based on the R^2 from the CAPM model. Columns (3) and (4) use *PSI_FFM* as the measure of stock price informativeness, which is stock price nonsynchronicity based on the R^2 from three factors Fama-French model. In columns (1) and (3), we regress stock price informativeness on foreign institutional shareholdings. In columns (2) and (4), we include the triple interaction term to test whether stock price informativeness is a possible channel of FIIs. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1)	(2)	(3)	(4)
	PSI_CAPM	Forced CEO Turnover	PSI_FFM	Forced CEO Turnover
Foreign shareholdings	0.306*** (0.080)	0.047 (0.079)	0.278*** (0.071)	0.045 (0.077)
Foreign shareholdings*Tobin's Q*PSI_CAPM		-0.082** (0.041)		
Foreign shareholdings*Tobin's Q*PSI_FFM				-0.115** (0.058)
Foreign shareholdings*Tobin's Q		-0.004 (0.038)		-0.014 (0.034)
Foreign shareholdings*PSI_CAPM		0.131 (0.082)		
Tobin's Q*PSI_CAPM		0.003** (0.001)		
PSI_CAPM		-0.002 (0.005)		
Tobin's Q		-0.001 (0.002)		-0.000 (0.002)
Foreign shareholdings*PSI_FFM				0.235* (0.142)
Tobin's Q*PSI_FFM				0.004** (0.002)
PSI_FFM				-0.004 (0.006)
N	21062	20380	20380	19971
Adjusted R-squared	0.318	0.022	0.332	0.022
Controls	YES	YES	YES	YES
IndustryFE	YES	YES	YES	YES
YearFE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES

governance quality, and Tobin’s Q. To avoid redundancy, the set of controls follows the logic in Section 5.1.2: because the governance index already incorporates several board-related attributes, we do not include overlapping governance components again in the same specification.

$$\text{Governance Index}_{i,t} = \gamma_0 + \gamma_1 \text{Foreign Shareholdings}_{i,t-1} + \partial Z_{i,t-1} + \text{Industry FE} + \text{Year FE} + \epsilon_{i,t} \quad (14)$$

$$\begin{aligned} \text{Forced CEO Turnover}_{i,t} = & \beta_0 + \beta_1 \text{Foreign Shareholdings}_{i,t-1} \times \text{Governance Index}_{i,t-1} \times \text{Tobin's Q}_{i,t-1} \\ & + \text{Lower-order interactions} + \gamma X_{i,t-1} + \text{Industry FE} + \text{Year FE} + \varepsilon_{i,t}. \end{aligned} \quad (15)$$

Table 10 reports the results. Column (1) shows that foreign institutional shareholdings are positively associated with governance quality. Column (2) further indicates that the triple interaction term, *Foreign Shareholdings* $\times$ *Governance Index* $\times$ *Tobin’s Q*, is negative and statistically significant, suggesting that governance improvements are one channel through which FIIs increase CEO turnover–performance sensitivity.

5.2.3 Foreign institutional shareholdings and Horse Race

The channel tests above study stock price informativeness and corporate governance separately. To assess their relative importance within a unified framework, we conduct a horse-race specification that includes both channels simultaneously. This comparison is particularly relevant in China, where foreign institutional investors typically hold relatively small equity stakes. Under such ownership structures, direct governance intervention may be constrained, whereas information production and trading by foreign investors can still materially improve the information content of prices.

Accordingly, we estimate a model that includes (i) the stock-price-informativeness channel via the triple interaction *Foreign Shareholdings* $\times$ *PSI* $\times$ *Tobin’s Q* and (ii) the governance channel via *Foreign Shareholdings* $\times$ *Governance Index* $\times$ *Tobin’s Q* in the same regression. By placing both mechanisms “head-to-head,” the horse race allows us to evaluate which channel more strongly explains the increase in forced CEO turnover–performance sensitivity associated with FIIs.

Table 11 presents the results. Across both measures of stock price informativeness (*PSI_CAPM*

Table 10: Channel Tests: Foreign shareholdings and corporate governance

This table reports the impact of foreign institutional shareholdings on CEO turnover-performance sensitivity through corporate governance. In column (1), we regress *Governance Index*, a measure of corporate governance quality, on foreign institutional shareholdings. In column (2), we include the triple interaction term to test whether corporate governance is a possible channel through which FIIs affect the CEO TPS. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Variable definitions are provided in the Appendix. All continuous variables are winsorized by year at the 0.5th and 99.5th percentiles. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

	(1) Governance Index	(2) Forced CEO Turnover
Foreign shareholdings	2.511*** (0.443)	0.001 (0.219)
Foreign shareholdings*Tobin's Q*Governance Index		-0.035* (0.019)
Foreign shareholdings*Tobin's Q		-0.000 (0.001)
Foreign shareholdings*Governance Index		0.006 (0.095)
Tobin's Q*Governance Index		0.002 (0.003)
Tobin's Q		-0.000 (0.002)
Governance Index		0.002 (0.002)
Book-to-Market Ratio	-0.121 (0.177)	0.030* (0.016)
Growth of Revenue	-0.009 (0.009)	0.005*** (0.002)
Firm Age	-0.019*** (0.006)	0.003*** (0.000)
Firm Size	0.354*** (0.042)	-0.002 (0.003)
Leverage Ratio	0.226 (0.207)	0.065*** (0.016)
Domestic Shareholdings	1.547*** (0.190)	0.067*** (0.012)
N	20159	18377
Adjusted R-squared	0.073	0.017
IndustryFE	YES	YES
YearFE	YES	YES
Cluster by Firm	YES	YES

and PSI_FFM), the estimated coefficients on $Foreign\ Shareholdings \times PSI \times Tobin's\ Q$ are negative and statistically significant. In contrast, the corresponding triple interaction involving corporate governance is statistically insignificant. Taken together, the relative magnitudes and significance patterns imply that, in the Chinese setting, FIIs primarily strengthen CEO turnover–performance sensitivity through improving the information environment and the price signal used in performance evaluation, while corporate governance does not appear to play a first-order role.

6 Robustness Tests

We conduct a series of additional tests to ensure the robustness of our results. We show that the relation between foreign institutional shareholdings and forced CEO turnover–performance sensitivity holds for alternative firm performance measures, alternative foreign shareholding measures, and alternative regression models. Performance could be measured by the annual stock return, which is a market-based and forward-looking performance evaluation. For the board and shareholders, it is important to consider the growth opportunity instead of the historical firm stock price when they assess the CEO’s behaviour and make the decision about CEO turnover (Chen et al., 2019). We thus use the annual stock return, *Stock Return*, as the measure of firm performance. In Table 12 Panel A, the coefficients of $Foreign\ shareholdings * Stock\ Return$, our key coefficient of interest, are negative and statistically significant in both columns, which is similar to our main results.

Because of capital control, the convertibility of the Chinese currency (RMB) is restricted, and foreign investors cannot freely invest in firms listed in China’s stock markets except for large and highly reputable institutional investors who can do so through the Qualified Foreign Institutional Investors (QFII) program. A Qualified Foreign Institutional Investor is a foreign institutional investor listed on the Qualified Foreign Institutional Investors List published by the China Securities Regulatory Commission (CSRC). Therefore, we use the QFII shareholdings in a firm as the alternative measure of foreign institutional shareholdings. In Table 12 Panel B, we show that the interaction term of foreign institutional shareholdings and firm performance still has a negative and significant coefficient, which is consistent with our main results.

Table 11: Channel Tests: Foreign Shareholdings and Horse Race

	(1) Forced CEO Turnover	(2) Forced CEO Turnover
Foreign shareholdings*Tobin's Q*PSI_CAPM	-0.087** (0.041)	
Foreign shareholdings*Tobin's Q*PSI_FFM		-0.114** (0.056)
Foreign shareholdings*Tobin's Q*Governance Index	-0.004 (0.012)	-0.004 (0.012)
PSI_CAPM	-0.004 (0.005)	
Foreign shareholdings*PSI_CAPM	0.142* (0.082)	
Tobin's Q*PSI_CAPM	0.003** (0.002)	
Foreign shareholdings*Governance Index	0.022 (0.026)	0.017 (0.028)
Foreign shareholdings*Tobin's Q	0.024 (0.086)	0.007 (0.084)
Tobin's Q*Governance Index	-0.001 (0.001)	-0.001 (0.001)
Foreign shareholdings	-0.097 (0.187)	-0.058 (0.198)
Tobin's Q	0.002 (0.003)	0.003 (0.003)
Governance Index	0.001 (0.002)	0.001 (0.002)
Foreign shareholdings*PSI_FFM		0.229 (0.141)
Tobin's Q*PSI_FFM		0.004** (0.002)
PSI_FFM		-0.006 (0.006)
N	20568	20159
Adjusted R-squared	0.018	0.017
Controls	YES	YES
IndustryFE	YES	YES
YearFE	YES	YES
Cluster by Firm	YES	YES

Table 12: Robustness Tests

This table reports the robustness tests. Panel A reports the regression results by using *Stock Return* as the measure of firm performance. In columns (1) and (2), we examine how Stock Connect affects the sensitivity of CEO turnover to firm performance. In columns (3) and (4), we replace the Stock Connect measure with foreign shareholdings, which also capture the influence of foreign institutional investors on listed firms. Panel B reports the baseline regression results by using *QFIIs shareholdings* as the measure of foreign institutional shareholdings. All explanatory variables are lagged by one year. Industry-level and year-level fixed effects are included in all models. Standard errors are reported in parentheses. Significance at 1%, 5%, and 10% levels are indicated by ***, **, and *, respectively.

Panel A: Alternative measure of firm performance: Stock Return				
	Forced CEO Turnover			
	(1)	(2)	(3)	(4)
After Stock Connect*Stock Return	-0.047** (0.024)	-0.042* (0.023)		
After Stock Connect	0.017** (0.007)	0.010 (0.009)		
Stock Return	-0.008 (0.018)	0.028 (0.019)	-0.011 (0.015)	0.023 (0.016)
Foreign shareholdings*Stock Return			-0.096* (0.058)	-0.098* (0.056)
Foreign shareholdings			0.016 (0.019)	0.020 (0.020)
N	14777	14647	14777	14647
Adjusted R-squared	0.006	0.022	0.005	0.022
Controls	NO	YES	NO	YES
IndustryFE	YES	YES	YES	YES
YearFE	YES	YES	YES	YES
Panel B: Alternative measure of foreign shareholdings: QFII shareholdings				
	Forced CEO Turnover			
	(1)	(2)		
QFIIs shareholdings*Tobin's Q	-0.061** (0.027)	-0.515* (0.312)		
QFIIs shareholdings	-0.012 (0.093)	1.386 (1.261)		
Tobin's Q	-0.001 (0.001)	-0.002 (0.002)		
N	26776	16210		
Adjusted R-squared	0.007	0.024		
Controls	NO	YES		
IndustryFE	YES	YES		
YearFE	YES	YES		

7 Conclusion

This study investigates the influence of foreign institutional investors on the sensitivity of forced CEO turnover to firm performance within Chinese A-share listed companies from 2009 to 2023. Our findings indicate a positive impact of foreign institutional investors on the likelihood of forced CEO turnover in response to an unsatisfactory firm performance.

We explore two potential mechanisms through which the activities of foreign institutional investors transmit into an increased CEO turnover-performance sensitivity: the quality of corporate governance and the informativeness of stock prices. Leveraging their expertise and international experience, foreign institutional investors can both improve the corporate governance and enhance the informational content of stock prices. We provide evidence that both these transmission channels then ultimately increase the probability of forced CEO turnover in case of firm underperformance.

To address potential endogeneity concerns, we employ the Shanghai/Shenzhen Hong Kong Stock Connect Program as a quasi-natural experiment and a basis for our staggered difference-in-differences identification strategy. The results confirm that foreign institutional investors can play an important role in forcing out underperforming top managers in emerging markets. Moreover, they do so both via improving corporate governance in local firms and via the somewhat under-researched transmission channel of stock price informativeness.

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Appendices

A Classifications of CEO turnover

This table compares the classifications of CEO turnover according to previous literature and our classification. The table reports how this paper classifies the CEO turnover as "forced" or "voluntary."

Reasons for departure	Classification following Parrino (1997)	Classification following Chang and Wong (2009) and Ma (2022)	Our Classification
Dismissal	Forced	Forced	Forced
Change in governance structure	Forced	Forced	Forced
Resignation	Forced	Voluntary if (a) or (b)	Forced
No reason given	Forced	Voluntary if (a) or (b)	Forced
Health	Voluntary	Voluntary	Voluntary
Legal disputes	Voluntary	Voluntary	Voluntary
Completion of acting duties	Voluntary	Voluntary	Voluntary
Change in controlling shareholders	Voluntary	Voluntary	Voluntary
Retirement	Voluntary	Voluntary if older than 60	Voluntary if older than 60
Expiration of term of office	Voluntary if (a) or (b)	Voluntary if (a) or (b)	Forced
Occupation mobility	Voluntary if (a) or (b)	Voluntary if (a) or (b)	Forced
Personal reason	Voluntary if (a) or (b)	Voluntary if (a) or (b)	Voluntary

B The Corporate Governance Index

This table reports how we define and calculate the corporate governance index. The Corporate Governance Index is constructed as in [Schweizer et al. \(2019\)](#) and reflects the sum of the nine governance mechanisms described below.

Governance Mechanism	Definition	Measurement and Supporting Literature
Chairman age	Age of the company's chairman	Equals 1 if the age of the chairman of firm i in fiscal year t is less than the mean value of the sample in fiscal year t , and 0 otherwise (Waelchli and Zeller, 2013).
Chairman tenure	Number of years the company's chairman has been in office	Equals 1 if the tenure of the chairman of firm i in fiscal year t is less than the mean value of the sample in fiscal year t , and 0 otherwise (Berger et al., 1997).
Board size	Number of directors on the board of directors	Equals 1 if the board size of firm i in fiscal year t is less than the mean value of the sample in fiscal year t , and 0 otherwise (Yermack, 1996 ; Conyon and Peck, 1998 ; Core et al., 1999).
Outside directors	The percentage of outside directors on the board	Equals 1 if the percentage of independent directors on the board of firm i in fiscal year t is greater than the mean value of the sample in fiscal year t , and 0 otherwise (Agrawal and Knoeber, 1996 ; Kim et al., 2007).
Board meeting	Number of annual meetings of the board of directors	Equals 1 if the number of annual meetings of the board of directors of firm i in fiscal year t is less than the mean value of the sample in fiscal year t , and 0 otherwise (Vafeas, 1999).
Supervisory board size	Number of supervisors on the supervisory board	Equals 1 if the number of supervisors on the supervisory board of firm i in fiscal year t is greater than the mean value of the sample in fiscal year t , and 0 otherwise (Ding et al., 2010 ; Jia et al., 2009).
Ownership concentration	Percentage of shares held by the company's largest shareholder	Equals 1 if the percentage of shares held by the company's largest shareholder of firm i in fiscal year t is greater than the mean value of the sample in fiscal year t , and 0 otherwise (Huang et al., 2011).
Foreign auditor	Hiring of a foreign auditor	Equals 1 if firm i hires a foreign auditor in fiscal year t , and 0 otherwise (Peng et al., 2011).
State Shares	State shares account for at least 5% of the firm's total shares	Equals 0 if the state holds >5% of the shares in firm i in fiscal year t , and 1 otherwise (Jiang et al., 2013).

Compared with binary governance scoring approaches, [Li et al. \(2013\)](#) and [Bebchuk et al. \(2009\)](#) emphasise the benefits of constructing continuous governance variables, as continuous measures preserve more information and allow for richer variation in governance attributes. Following this recommendation, and combining the approach used in [Schweizer et al. \(2019\)](#), we construct a composite corporate governance index based on the same nine governance mechanisms adopted in

that study.

Each governance variable is standardized within year to ensure comparability across time and to account for differences in governance norms within each fiscal year. After standardization, the continuous governance index is computed as the row-mean of the standardized components, yielding a single continuous measure of governance quality. For interpretability, this continuous score is subsequently converted into yearly governance deciles (1–9), where higher deciles indicate stronger governance relative to other firms in the same year.

C Variable Definitions

Here are the variable definitions in this paper, including sets of key variables and control variables.

Variables	Definitions
Key Variables	
Forced CEO Turnover	A dummy variable equal to 1 if the CEO turnover occurs in the fiscal quarter and 0 otherwise.
Foreign shareholdings	The firm-level foreign institutional shareholdings.
QFII shareholdings	The firm-level Qualified Foreign Institutional Investors (QFIIs) institutional shareholdings.
Tobin's Q	Growth opportunities, defined as market value of equity plus book value of assets minus book value of equity minus balance sheet deferred taxes, scaled by total assets, measured at the end of the year.
Stock Return	Annual stock return considering reinvestment of cash dividends at the end of the year.
PSI_CAPM	The stock price nonsynchronicity, PSI, is a measure of stock price informativeness based on the R^2 from CAPM model.
PSI_FFM	The stock price nonsynchronicity, PSI, is a measure of stock price informativeness based on the R^2 from three factors Fama-French Model.
Governance Index	The values 0 to 9 represent the corporate governance quality of the company, with 0 being the worst and 9 being the best.
Controls variables	
CEO Tenure	Number of years that the CEO has been in office divided by 12.
CEO Age	Age of the CEO in the year.
Book-to-Market Ratio	The book value over market value of equity in the firm i year t .
Growth of Revenue	The growth rate of the operating revenue in the firm i year t .
Firm Age	Number of years since the firm i first listed.
Firm Size	The natural logarithm of total assets in the firm i at the end of year t .
CEO Duality	Dummy that equals one if the CEO is also the board chairman, and zero otherwise.
Leverage Ratio	Book leverage, calculated as the ratio of total liabilities to total assets at the end of year t .
Board Size	The number of directors serving on the company's board.
Outside directors	The percentage of outside directors on the board at the end of the fiscal year.
Domestic shareholdings	The firm-level domestic institutional shareholdings.
CEO Shareholdings (%)	The percentage of shares held by CEO in the firm i in the year.

D Rationale for Fixed Effects and Clustered Standard Errors

Breuer and Dehaan (2024) stress that within-firm temporal variation is not necessarily cleaner than cross-sectional variation, so firm FE specifications are not by default preferable to other specifications (e.g., Zhou, 2001; Nikolaev and van Lent, 2005). Foreign institutional shareholdings may exhibit stickiness and primarily manifest as inter-firm differences (Chen et al., 2020). As shown in the table above, our assessment of the dataset reveals that core independent variables all demonstrate greater between-group variation than within-group variation. Therefore, employing fixed effects that relies on cross-sectional variance better identifies its impact on turnover- performance sensitivity: we apply industry and year effects.

Table 13: Overall, Between, and Within Variation of Key Variables

Variable	Mean	Std. dev.	Min	Max	Observations
Foreign shareholdings*Tobin's Q					
Overall	0.062	0.172	0.000	1.403	N = 39558
Between		0.167	0.000	1.170	n = 4873
Within	0.077	0.077	-0.623	1.194	T-bar = 8.118
Foreign shareholdings*Tobin's Q*PSI_CAPM					
Overall	0.047	0.239	-1.809	4.501	N = 36859
Between		0.214	-0.310	2.423	n = 4564
Within		0.179	-2.010	3.956	T-bar = 8.076
Foreign shareholdings*Tobin's Q*PSI_FFM					
Overall	0.052	0.237	-2.012	4.661	N = 36861
Between		0.224	-0.411	2.667	n = 4564
Within		0.178	-1.830	3.838	T-bar = 8.076
Foreign shareholdings*Tobin's Q*Governance Index					
Overall	0.241	0.707	0.000	8.064	N = 33438
Between		0.681	0.600	6.753	n = 4465
Within		0.323	-2.537	4.734	T-bar = 7.489