CHAPTER – III

REVIEW OF LITERATURE

This chapter brings out the previous research studies done in the area of Foreign Institutional Investors and their impact on stock market across countries. This effort would help the researcher to understand the research gap and proceed with the current research to overcome the research gaps that exist.

3.1 Trend in FII

Murthy et al. (1999) identified that foreign private capital flows in the form of portfolio investments, to facilitate stock markets in the developing countries. These investments would help the stock markets to widen investor base and improve the trading systems. Volatility associated with portfolio capital flows is well known, there is a concern that FIIs might introduce distortions in the host country markets due to the pressure on them to secure capital gains. The study seeks to assess the importance of foreign portfolio investments in India relative to other major forms and to study the relationship between foreign portfolio investments and trends in the Indian stock market during the past 4 years.

Henry and Peter (2000) attempted to find out the relationship and effectiveness of stock market liberalization, economic reforms on the Emerging
Market equity prices. The question that stock market liberalization reduces the aggregate cost of equity capital was analyzed with the help of event study approach and covered 12 emerging markets. The analysis revealed that a substantial appreciation of aggregate share prices occurs both in the months leading up to the implementation of a country’s initial stock market liberalization as well as in the implementation month itself. On average, in the eight-month window preceding its initial stock market liberalization, a country’s aggregate share price index experienced a 38 per cent increase in real dollar terms. After controlling for relevant factors, the revaluation was about 26 per cent. About 6.6 per cent of this revaluation took place in the actual implementation month. The macro economic reforms were themselves a significant source of share price revaluation.

Stanley (2002) examined that FIIs played a very important role in building up India’s Forex reserves, which enabled a host of economic reforms. Secondly, FIIs are now important investors in the country’s economic growth despite sluggish domestic sentiment. The Morgan Stanley report notes that FII strongly influence short-term market movements during bear markets. However, the correlation between returns and flows reduces during bull markets as other market participants raise their involvement reducing the influence of FIIs. Research done by Morgan Stanley show that the correlation between foreign
inflows and market returns is high during bear. It weakens with strengthening equity prices due to increased participation by other players.

Batra (2003) identified a positive feedback for FIIs (Foreign Institutional Investors) for the period January 1994 to December 2002, with the help of monthly data and daily data for the period of January 2000 to December 2002. There existed a strong evidence of FIIs changing trends and adopting positive feedback trading strategies at the aggregate level on a daily basis. But there was no evidence of positive feedback trading on a monthly basis. The results of the analysis also indicate that foreign investors have a tendency to have together in their trading activity in India. However, the trading behavior and basis of the FIIs do not appear to have a destabilizing impact on the equity market.

Sivakumar (2003) analyzed the net flows of foreign institutional investment over the years. It also briefly analyses the nature of FII flows based on research and explores some determinants of FII flows and examines whether the overall experience has been stabilizing or destabilizing for the Indian capital market.

Rai and Bhanumurthy (2003) analyzed the role of return, risk and inflation as a determinant of foreign institutional investment in India. They made two hypotheses that inflation and risk in domestic country and return in foreign country would adversely affect the FII flowing to domestic country, and inflation
and risk in foreign country and return in domestic country would have favorable effect on the same. Monthly data from January 1994 to November 2002 were used for the estimation. The study used Threshold ARCH method to estimate the result. The results showed that there existed a positive association of FII with return on BSE, Inflation in US and negative association with inflation in India, return on S&P 500, ex-ante risk and BSE and ex-ante risk on S&P500. The study did not find any causation running from FII inflow to return in BSE as was found by some earlier studies. It also found evidence that the FIIs would react more to the bad news than to the good news.

Samy and Murugan (2006) held that Investors can pick up stocks at these levels for a growth story for long term i.e. for equities of 5 years holding period is reasonable to give a very above average return. Caution may be exercised to buy only good, well established market movers and never, to buy on margins or play intraday or dabble in market, which is high risk.

Saha (2009) studied the stock market movements in India and flow of foreign institutional investments. The pace of growth is stable compared with the past and with other fast growing economies.

The research concludes that real economic growth depends on financial markets integration and net FII inflows, and net FII inflows depend on financial markets integration and real economic growth. This research suggests that the ongoing financial sector reforms in India need to be accelerated for achieving a higher degree of financial markets integration in order to increase net FII inflows and real economic growth.

Sangeeta and Ashish (2010) examined the trading pattern of FIIs and the Indian mutual funds across the days of the week for a period of nine years from January 2000 to January 2009. A set of parametric and econometric tests were employed to test the equality of daily mean investment of FIIs and IMFs. The findings of the study show the net investment made by the FIIs. While the investments made by the IMFs are equally distributed among the various days of the week. As far as their relations with stock markets trend was concerned, day anomalies in Indian share market return somehow correlated with the investment pattern of FIIs, as they behave in the same manner as the market is behaving.

Syed and Pardhasaradhi (2012) explain that inflow of Foreign Direct investments has become a striking measure of economic development in both developed and developing countries. FDI and FII thus have become instruments of international economic integration and stimulation. Fast growing economies like Singapore, China, Korea etc have registered incredible growth at onset of FDI.
Though US captures most of the FDI inflows, developing countries still account for significant growth of FDI and rise in FII. FDI not only gives access to foreign capital but also provides domestic countries with cutting edge technology, desired skill sets, tools of innovation and other complementary skills. The policies drafted to stimulate the flow of foreign capital in to India provided much needed impetus for India to emerge as an attractive destination for foreign investors. External factors such as global economic cues, FDI and FII, Exchange rate and Internal factors such as demand and supply, market cap, EPS generally drive and dictates the Indian stock market. The relationship and impact of FDI and FII on Indian stock market is studied using statistical measures correlation coefficient and multi regression. Sensex and Nifty are considered as the representative of stock market as they are the most popular Indian stock market indices. Based on 11 years data starting from 2001 to 2011, it is found that the flow of FDI and FII is moving in tandem with Sensex and Nifty. The study concludes that Flow of FDIs and FIIs in India determines the trend of Indian stock market.

3.2 FII across Countries

Arshanapalli and Kulkarni (1997) analyzed the nature and extent of linkage between the U.S. and the Indian stock markets. The study used the theory of co-integration to study interdependence between the BSE (Bombay Stock Exchange), NYSE (New York Stock Exchange) and NASDAQ (National Association of
Securities Dealers Automated Quotations). The sample data consisted of daily closing prices for the three indices from January 1991 to December 1998 with 2338 observations. The results were in support of the intuitive hypothesis that the Indian stock market was not interrelated to the US stock markets for the entire sample period. It was noted that stock markets of many countries became increasingly interdependent with the US stock markets during the same time period. India was late in effecting the liberalization policy and when it implanted these policies it did so in a careful and slow manner. However, as the effect of economic liberalizations started to take place, BSE became more integrated with the NASDAQ and the NYSE, particularly after 1998. It was noted that though BSE stock market is integrated with US stock markets, it does not influence the NASDAQ and NYSE markets.

Michael and Mohammad (2000) examined the long run equilibrium relation between the net flow of funds into equity MF and the S&P 500 index. Applying the Engel and Granger correction methodology followed by a state space procedure. It was found that the levels of the stock market are influenced by the net flow of funds into equity MFs. Their findings indicate that the US equity market appears to be rationally adjusting to a structural change in the behaviour of the US investing public.
Freeman and Bartly (2000) attempted a survey method by sending questionnaire to some of the foreign portfolio investors to identify the investment practices and perceptions by major portfolio investors. For this survey, they had taken the countries where there investors were found to be more active, i.e. five Southeast Asian Equity markets (Bangkok, Inkarta, Kuala Lumpur, Manilia, and Singapore). The questionnaire were mailed in December 1999 to 305 portfolio investors located in four of the world’s major financial centers – Hong kong, Singapore, Britain and the US. The number of response to the mail out was 31, which provided a 10.2 percent response rate. The result that was drawn from the survey disclosed that the fund manager’s seek greater disclosure for listed Southeast Asian firms. Institutional investors found favour among the companies that had good track records on general management ability, respect for minority shareholders rights, strategic focus, quality information disclosure and which had low debt levels. It was also apparent that foreign institutional investors were not wholly satisfied with the sectoral distribution of forms listed on the regions equity markets. Thus, it was evident that except Singapore, the performances of the South East Asian equity markets seem surprisingly influenced by a number of factors other than the corporate fundamentals of the companies listed on them, in terms of: volume flows, retail participants, sensitivity to other equity markets in the region, and the world’s major equity markets. And it was also empirically found
that Singapore turned out to be the most favorite and attractive equity market with the FIIs.

Narag (2000) in a study provided an analysis of the impact of international portfolio flows on domestic equity prices and economic activity. Using quarterly data on foreign portfolio investment, the index of industrial production, and stock returns Granger causality tests were undertaken for Mexico and India. The main motivations for choosing Mexico was to provide an insightful comparison for the Indian case as not only did the formed undergo liberalization at an earlier data but also at a faster pace with regard to its capital account. The empirical evidence in this paper showed that international portfolio flow had a beneficial impact on countries that liberalize in the sense that the resultant portfolio flows had a positive effect on the economics activity and growth prospects of the country. This was true for both the countries taken into consideration viz., Mexico and India. The results showed that IIP for both India and Mexico had responded positively to FPI. Similar response was also evident in the case of stock returns of India, though it was found absent in the Mexican case as seen by the granger causality test and the variance decomposition test.

Bekaert and Harvey (2000), analyzed the effect of foreign speculators on the expected equity returns, the cost of capital and also examined the various ways foreigners could access emerging market equity (ADRs, Country Funds, or direct
participation) and market integration, and seen whether there have any effects as volatility, the world beta, and the correlation between emerging markets and the world market returns. For this empirical analysis, the study had taken a sample of 20 emerging markets. It was found that the capital market integration prices reduce the cost of capital but less than expected. There was some evidence in favour of small growth effect of a country by the liberalization process. In fact one control variable that was very significant in the regression applied was the economic openness of the country, which is known to be a reliable predictor of economic growth. Regressing the investment to GDP ratio on the liberalization indicator it revealed that there were significant increases in the investment to GDP ratio. The study also disclosed that there was insignificant increase in the volatility of stock returns following capital market liberalization; and there was only a small increase in correlation with the world market returns.

A World Bank study examined the status of portfolio investment flows to developing countries in the study period with a view to understand the magnitude, structure and composition of the newly Emerging Stock Markets and the role they might be expected to play in mobilizing resources from abroad. In addition to this, the study also examined the issue of whether the observed large voluntary private capital inflows into these ESMs were primarily a result of ‘pull’ factors (domestic policy reforms and creditworthiness) or ‘push’ factors (exogenous conditions in the international financial markets). The study further examined whether these
capital flows were part of one-time portfolio reallocation from abroad including return of flight capital, or a sustained inflow of additional voluntary private capital from the developed financial markets into the ESMs in the future. It was observed that the developing countries were successful in acquiring the highest level of private source international capital flows since the early eighties, and these flows have primarily been in the form of bond and equity financing rather than medium and long-term lending by commercial banks. Further, the inflow of private capital into the emerging markets was partly due to the recessionary situation in the industrialized countries, a high interest rate differential between international interest rates and the domestic interest rates in the emerging markets, as well as the higher expected growth rates in the developing countries concerned as compared to those expected in the industrialized countries. The domestic policy reforms in an endeavor to achieve a sustained high growth rate and institutional changes to facilitate greater participation by foreign portfolio investors in the ESMs and efforts to improve credit worthiness were also led to the drastic increase in portfolio investment in some developing countries.

Chakrabarti (2001) examined in his research that following the Asian crisis and the bust of info-tech bubble internationally in 1998-1999 the net FII has declined by US$ 61 million. But there was not much effect on the equity returns. This negative investment would possibly disturb the long-term relationship between FII and the other variables like equity returns, inflation, etc.
has marked a regime shift in the determinants of FII after Asian crisis. The study found that in the pre-Asian crisis period any change in FII found to have a positive impact on the equity returns. But in the post-Asian crisis period it was found the reverse relation that change in FII is mainly due to change in equity returns. Hence, any empirical exercise on FII has to take care of this fact.

Chaudhuri et al. (2001) examined the impact of domestic macroeconomic fundamentals and international economic environments on the stock return volatility of four emerging markets in Asia: India, South Korea, Malaysia and Thailand. They constructed a general analytical framework for stock return volatility by taking into account some major factors like, money supply volatility, Government expenditure, real economic activities (industrial production) exchange rate, international investors speculative behavior, volatility of foreign stock market, interest rates in developed countries. In their study it was assumed that the volatility in the above stated factors may have an influence over the stock market returns volatility. Stock indices data employed in this study were obtained from the data stream. All other macroeconomic variables and the US and Japan interest rate data were from IFS and IMF. The data set was composed of monthly data and covered the period from January 1980 to December 1995. The study revealed that both domestic macroeconomic variables and international variables had explanatory power for stock return volatility. The evidence strongly suggested the existence of a significant contagion effect and integration of capital markets in
this region. The Japan stock market had a dominant impact on other Asian countries’ stock markets. The interdependence of stock markets in this region implies that a shock in one market would be easily transmitted to other markets. The role of government in smooth functioning of stock markets was crucial in this region. The uncertainty of fiscal and monetary policies was significantly correlated with stock return volatility.

Bekaert et al. (2001) attempted to find the relationship between real economic growth and financial liberalization. The study emphasized on the time-series component of growth in addition to the cross-sectional relation. For the study the authors have taken a sample of 30 countries classified as either emerging or frontier by the International finance corporation (IFC). The data covered the period from 1980 to 1997. The variables that were taken for the study were Macroeconomic influences, banking development, and equity market development. They used Monte Carlo experiments to assess the properties of the estimation strategy in this economic environment. The studies observed that financial market liberalization were associated with higher real growth at the range of one percent per annum. The financial market liberalization was robust to the inclusion of the usual set of control variable representing the macroeconomic environment, banking development and stock market development. In addition, the real economic growth and liberalization was not impacted if one controls for the size of the government sector or examine early versus late liberalizers. The
study also found evidences that the impact of liberalization on growth was not a Latin American phenomena, also countries with higher than average level of education, benefit much more from financial liberalization.

Froot et al. (2001) explored the behavior of daily, international portfolio flows into and out of 44 countries from 1994 through 1998. The study found that international portfolio inflows were slightly positively correlated across countries, and were more strongly correlated within regions. The correlation of flows in most regions, and particularly within Asia, rises strongly during the Asian crisis sub sample, but not during the Mexican crisis sub sample. Inflows and outflows were highly persistent. The persistence was complex in the sense that a shock to inflows today was associated with slightly greater inflows over a long period. In emerging markets, inflows predict on average to positive future returns. The majority of price increases did not occur over a short period. Rather prices seemed to rise subsequent to inflows for a month or two. The forecasting power of inflows for future returns occurred because current inflows predict future inflows, and future inflows drive up prices.

Portes and Rey (2002) attempted to bring out the factor determining the cross border flows, with the support of data of 14 countries collected through a period from 1989-1996. This study uncovered a specific geographical pattern of international asset transactions; their strong evidence showed that there was a very
important geographical component in international asset flows. International markets were not frictionless. They were segmented by information asymmetries. This work puts informational asymmetries geography of information was the main determinant of the pattern of international transactions.

Hargis (2002) examined the effect of different forms of foreign investment liberalization on risk in emerging equity markets, including international cross-listings and closed-end country funds, and in the domestic market as foreign investment, restrictions were eliminated. For this analysis the study made use of weekly and monthly stock market index data. The study presented evidence that, in contrast to the fears of policymakers in emerging economics, volatility did not increased in emerging stock markets after opening to foreign investors. The volatility of markets in Argentina and Brazil declined after liberalization. Argentina, Brazil and Mexico also showed significant declines in volatility for the indexes of ADRs, country funds, and percentage of foreign ownership. The results in Asia were less clear, with Taiwan volatility declining and Thai volatility increasing after liberalization. After the Mexican crisis, volatility in Argentina and Brazil did not increase significantly. Volatility in Mexico was not as abnormal as perceived, compared with the period before liberalization. Volatility was driven primarily by domestic factors in Argentina, Brazil, and Chile. Transmission of volatility from the US to Latin America increased significantly in Mexico after
liberalization. The risk also increased in Chile for the index of ADRs listed in the US and in Thailand for the percentage of foreign ownership.

Richards (2002) used daily data on total foreign inflows into six Asian equity markets over 1999-2001 to provide new evidence on the determinants of foreign investment and the impact of foreign trading on domestic asset prices. By using daily data, the paper was able to study the high frequency relationships between flows and returns and conducted tests of linkages that had not been feasible in previous studies using weekly, monthly or quarterly data. This study focused on the aggregate trading of foreign investors and its macroeconomics implications, rather than on the stock level trades of individual’s investors. The markets studied included the Korea Stock Exchange, the KOSDAQ Stock Market, the Taiwan stock Exchange, the Philippine stock Exchange, the Jakarta stock Exchange and the stock exchange of Thailand. This paper also investigated the price impact of foreigner’s trading, and the trading behavior of domestic investors. An additional factor distinguishing this paper was that many earlier studies had focused on the extraordinary 1997-1998 crisis period or used per-crisis data, whereas the 1999-2001 period that was studied here provided a more up-to-date snapshot of the role of foreign investors in more normal market conditions. The strongest result was that the trading decisions of foreign investors were substantially influenced by recent returns in US and regional equity markets in addition to the domestic market. What was most surprising about this evidence of
positive feedback or momentum type investing was its timing, that the trading of foreigners, responds so quickly to price changes that has occurred the previous day or overnight. The second major result was that foreigners have very strong price impacts when they trade. Together, these results suggested that foreign investors and conditions in mature markets had a much large impact on emerging than had been suggested by various works. The evidence that foreigners responded to the previous day’s price movements in foreign markets was clear evidence of a form of positive feedback trading, given that the trading decision follow the earlier price changes. Wealth effects and portfolio rebalancing conceivably explained this trading.

Griffin et al. (2002) presented a simple model of equilibrium equity flows with barriers to international investment and foreign investors who found past stock prices more informative about future domestic returns than domestic investors did. The model predicted that equity flows toward a country increased with the return of that country stock market. In addition, when a country was small, the model predicted that equity flows towards the country increased with stock returns in the rest of the world. The study found that foreign investors invested more following high returns in a market and that they reacted quickly, often within one calendar day. Using a bivariate structural VAR where flows were allowed to depend on returns to regional indices as well as past flows and local returns, the study examined the importance of regional returns. Equity flow
increased following strong regional equity returns. North American returns were particularly important in determining equity flows towards Asia and have an economically and statistically significant effect on flows toward Indonesia, Korea, Taiwan, Thailand, and India. These findings were robust when taking into account exchange rate effects, cross-country flow dynamics, the Asian and Russian crisis, and potential asymmetric effects of positive and negative returns.

Druham (2003) in a study finds out that, by examining the effects of EPI and other foreign investment of economic growth. For this, he had used a data set consisting of 88 countries. The period covered for the study was from 1977 to 2000. Most of the results in the study suggested that EPI, bond EPI and other financial instrument has no statistically significant effect on growth. At the same time, comparatively few data support the view that other forms of foreign investment retard growth either directly or indirectly through boom and bust cycles and financial crises. However, these results were questionable due to possible simultaneity bias. In addition, EPI did not correlate positively with macroeconomic volatility, but the results indicated that the negative indirect effect of OFI through macroeconomic volatility comprises a substantial portion of the gross negative effect of OFI on growth.

Raju and Ghosh (2004) held that volatility estimation is important for several reasons and for different people in the market. Pricing of securities is
supposed to be dependent on volatility of each asset. Mature markets or
developed markets continue to provide over long period of time high return with
low volatility. Amongst emerging markets except India and China, all other
countries exhibited low returns (sometimes negative returns with high volatility).
India with long history and China with short history, both provide as high a
return as the US and the UK market could provide but the volatility in both
countries is higher. The third and fourth order moments exhibit large asymmetry
in some of the developed markets. Comparatively, Indian market shows less of
skewness and Kurtosis. Indian markets have started becoming informationally
more efficient. Contrary to the popular perception in the recent past, volatility
has not gone up. Intraday volatility is also very much under control and has came
down compared to past years.

Kwangsoo et al. (2004) examined the characteristics of institutional and
foreign investor stock ownership, and the stock price performance according to
their ownership for two major Asian markets, Japan and Korea. The differences
in abnormal returns are more evident for foreign ownership portfolios than for
institutional ownership portfolios, especially in Korea. Among institutional or
foreign investors, the differences in abnormal returns remain still significant in
Korea, but not in Japan. Both institutional investors’ incentive for stock holding
and the extent of stock market efficiency would be the possible explanations for
the different results between Japan and Korea.
Andy and Chih-Yuan (2006) explored the relationship between qualified foreign institutional investors (QFIIs) and Taiwan’s stock market and evaluates the effect of QFIIs’ investment transactions on Taiwan’s stock market. By taking the date of easing regulatory restrictions on foreigners’ stock investment holdings as a cutoff point, the research uses the highest and lowest 10 stocks of QFII holdings in three industry sectors as sample portfolios to study the prior- and post-event returns.

Sikdar (2006) held that the surge in inflows was not matched by a corresponding growth in the absorptive capacity of the Indian economy. The major reason is the persistent slowdown of industrial activity since 1997. At the same time, the Reserve Bank of India (RBI) has been reluctant to let the rupee find its market-clearing level under the circumstances. This has resulted in steady accretion to Indian foreign exchange reserves (FER) over the last few years. Problems of Foreign Capital are widening of current account deficit, monetization, appreciation of real exchange, etc.

Keiichi et al. (2007) investigated the gains and losses from equity trades of individual investors, various institutional investors, and foreign investors in the Tokyo Stock Exchange. And developed a trade-weighted performance measure and examine the impact of trading intervals, price spreads, and market timing on performance. It was found that different investor types gain or lose from different
sources. For examples, it was discover that individual investors have poor market timing ability but potentially gain during short run trading intervals as their average sell price is consistently higher than the average purchase price. In contrast, it was found that foreign investors consistently generate gains from trade due to good market timing, although their average sell price is lower than the average purchase price. Also, it was that foreign investors extract significant portion of their gains by trading against Japanese institutional investors when Japanese investors trade before their fiscal year end.

3.3 Factors Influencing Flow of FII

Richard (1996) found that a trader-intensified transactions database is employed to investigate: the relation between order-flow imbalance closed-end funds share prices and discounts; and the role of institutional investors in closed-end funds. Empirical results are consistent with the hypothesis that buyers (sellers) of closed-end funds face upward (downward) sloping supply (demand) curves. The results also demonstrate that ownership statistics fail to accurately reflect institutional investor’s importance in closed-end funds market. The results failed to provide the evidence that institutional investors offset the position of individual investors or that institutional investor’s face systematic “noise trader risk”.

Bohn and Tesar (1996) say that the concern with the entry of FIIs is that they are positive feedback traders - traders who buy when the market increases
and sell when the market falls. This acts as destabilizing factor because the sales by FIIs lead the stock market to fall further and their buys increase the stock market. Not only this, these trades push the stock-prices away from the fundamentals as revealed by studies on contemporaneous relation between FIIs investments and equity returns based on monthly data.

Ilangovan and Tamilselvan (1997) explain the steps that are taken to gain extra mileage as regards the level of foreign investment receipts were concerned. Foreign direct investment is proven to have well-known positive effect through technology spillovers and stable investments tied to plant and equipment, but portfolio capital is associated more closely with volatility and its capacity to be triggered by both domestic as well as exogenous factors, making it extremely difficult to manage and control.

Bekaert and Harvey (1998) explain that the waves of liberalization results in appreciation of stock price which is followed by inflows from foreign investors. As the Indian equity market is growing, the trend and future prospects in foreign institutional investments has become a topic of great concern. A research survey by Japan Bank for international operation (JBIC), explain how that in the next 3 years, India will be the third most favoured investment destination for Japanese investors. The estimated market value of foreign institutional investment in the top 200 companies in India (including ADRs and GRDs) at current market prices is
US$43 billion. This is 18% of the market capitalization of BSE 200. It is established in literature that block shareholders influence the firm performance (Cho and Padmanabhan, 2001). The stock market shows more reaction to foreign investment as the economy liberalizes.

Bhattacharya and Mukherjee (2000) tried to determine the lead and lag relationships between the Indian stock market and five key macro economic variables. They tried to answer the issue whether Indian stock market act as a barometer for the Indian economy? To test this hypothesis, the study employed the methodology of granger non-causality for the sample period April 1992 to March 2002. BSE sensitive index was used as a proxy for the Indian stock market. The study used broad money supply (M3), national income (gross national product at constant prices), index of industrial production, interest rate (364 day Treasury bill rate) and the rate of inflation. The following were the results, i) there was no causal linkage between money supply and stock prices, ii) there was no causal linkage between national income and stock prices, iii) index of industrial production leads the BSE SENSEX, iv) a bi-directional causality existed between stock price and the rate of inflation, v) there was no causal linkage between interest rate and stock prices. The result suggested that the sensitive index of the BSE had already incorporated all past information on money supply, national income and interest rate. However, the stock market was informatively inefficient with respect to the index of industrial production and the rate of inflation.
Chakrabarti (2001) analyzed net FII (Foreign Institutional Investment) inflows and returns by using Granger-causality test on the BSE (Bombay Stock Exchange) for the period 1993-1999. Analysis of monthly data and daily data from January 1999 to December 1999 it was found that causality exists between returns and FII inflows. The other determinants of FII flows into the country is also indentified and it is found that domestic and international variables likely to affect FII flows and fail to diminish the importance of contemporaneous returns in explaining FII flows. The results were supported by researches made during later period.

Richard and Mbodja (2001) studied recent advances in the time-series analysis to examine the inter-temporal relation between stock indices and exchange rates for a sample of eight advanced economies. An error correction model (ECM) of two variables employed to simultaneously estimate short-run and long-run dynamics of variables. The ECM result revealed significant short-run and long-run relationship between two financial markets. Specifically, the results show that increase in aggregate stock prices has negative short-run effect on domestic currency value. In the long-run, however, stock prices have positive effect on domestic currency value. On the other hand currency depreciation has negative short-run and long-run effects on stock market.
Kumar (2001) did an empirical investigation on the effects of FIIs on the Indian stock market. The main objective of the study was to examine the causal relationship between the net FII investments and the Indian stock market represented by SENSEX. For the FII investments, the author had taken only equity investment alone and not the debt market investments. The data were taken from the Handbook of Statistics on Indian economy, for the period January 1993 to December 1997. To analyze the data bivariate Granger Causality test and augmented Dicky-fuller test were performed. From the error correction model, it was found that there is a long run relationship between net FII investment and SENSEX. It was also proved through the identification of evidence of causality from SENSEX to net FII investments through the part value of sense. The F value was significant when three lags of SENSEX and the error-correction term were introduced into the regression with bet FII investments as the dependent variable. It was further observed that there was causality in the reverse direction from net FII investments to SENSEX. One-month lag if net FII investments was found to be significant in the SENSEX regression. It was concluded that there exists bi-directional causality in the Granger sense from net FII investments to SENSEX and from SENSEX to net FII investments. The study inferred that FII investments do not respond to the short-term changes or technical position of the market and they were more driven by market fundamentals.
Aggarwal et al. (2002) attempted to examine three major issues. First they analyzed the characteristics of firms that were part of the holdings of U.S. mutual funds. The firm characteristics studied included stock attributers, financial attributes and accounting disclosure attributes. Second, the relationship between market level factors, such as market size and investor protection laws, and investment by funds was examined. Finally, the study examined the relationship between country-level characteristics, for example, macroeconomics factors and legal system, and institutional investment. In addition to financial characteristics, such as firm size, leverage and returns, the study found that accounting disclosure quality was equally important. However, liquidity and float were not found to be significant. Funds were found to invest in many more firms than a market benchmark. Fund allocation was higher than the MSCI weight in larger firms, firms with lower leverage and higher returns. A larger proportion of the fund’s assets were invested in firms that have higher quality accounting disclosures. The results suggested that investment by foreign institutions depend not only on the firm’s financial attributes but also on accounting standards and corporate governance.

Mukherjee et al. (2002) estimated the impact of lagged stock returns and other relevant variables such as industrial production, call money rate and exchange rate on FII flows, and found that market returns are perhaps the single most important factor determining FII flows.
Kumar (2002) examined the “Impact of FDI & FII on India”. The objective of his research is to find the trends and patterns in the FDI from different countries flown into India during 1991-2007 period means i.e during post liberalization period & Influence of FII on movement of Indian stock exchange during the post liberalization period that is 1991 to 2007. The key findings of this research are that Net FDI in India during 2005-2006 was valued at $4.7 billion. During 2006-2007, it got tripled, to $15.7 billion. Almost one-half of all FDI is invested in the Mumbai and New Delhi regions. Researcher concludes that the process of economic reforms initiated from July 1991 have opened up many sectors to the financial institutors. It concludes that FII did have high significant impact on the Indian capital market.

Chopra (2002) examined the effect of policy reforms on the FDI in India. The analysis has been carried out with the help of annual data from 1980-2000. The research includes policy related variables such as the degree of openness of the economy, debt-service ratio, foreign exchange rate and GDP as the explanatory variables of FDI inflows in India. Empirical result shows that GDP is an important factor which motivates FDI in the country. Rangarajan (2000) suggested that foreign portfolio investments would help the stock markets directly through widening investor base and indirectly compelling local authorities to improve the trading system. FII is not isolated and it is argued that it has impact on the overall economic structure.
Gordon & Gupta (2003) analyzed by taking the data from March 1993 to December 2001 to look at the determinants of FII flows into the country. It was identified that other than the external factors, one of the important primary domestic determinants of FII flow was lagged stock returns. The results revealed negative relationship between portfolio flows and the domestic stock market, explained by portfolio rebalancing. In general, it was found that domestic macro factors play an important role in determining FII flows which suggest that foreigners do not follow a pure bottom-up approach to investing in India and their interest in some Indian stocks was not impervious of macro events in India.

Raj Chaitanya (2003) discussed in length about the FIIs and their impact on the Indian economy. Analyzing daily flow data, he concludes that the stock market performance has been the sole driver of FII flows, though monthly data in the pre-Asian crisis period suggests some reverse causality.

Rai and Bhanumurthy (2003) examined the determinants of Foreign Institutional Investments in India that crossed almost US$ 12 billion by the end of 2002. Given the huge volume of these flows and its impact on the other domestic financial markets understanding the behavior of these flows becomes very important at the time of liberalizing capital account. In this study, by using monthly data, it was found that FII inflow depends on stock market returns, inflation rate (both domestic and foreign) and ex-ante risk. In terms of
magnitude, the impact of stock market returns and the ex-ante risk turned out to be major determinants of FII inflow. This study did not find any causation running from FII inflow to stock returns as it was found by some studies. Stabilizing the stock market volatility and minimizing the ex-ante risk would help in attracting more FII inflow that has positive impact on the real economy.

Trivedi and Nair (2003) investigated the determinants of FII flows to India, and the causal relationship between FII investment inflow and the risk returns in the Indian stock markets. The objectives were: to identify the factors that determine the flow of FII funds to India; to find out the nature and direction of causality between returns on Indian share markets and FII investment inflows; to bring out whether FII cause the volatility in the Indian share markets or the volatility in the Indian share markets causes the FII investment inflow; and to find out the existence or lack of informational disadvantage to FIIs. The returns on investment in share market provided by the SENSEX returns and nifty returns; monthly variances of SENSEX and nifty; beta of the SENSEX and nifty; information asymmetry and the East Asian crisis were considered as determinants of FII investment. Monthly data for a period spanning from April 1993 to March 2002 were included. The study conducted the OLS regression to find out the relationship between the dependent and the explanatory variables. Granger causality test was used to bring out the causal relationship between the selected variables. The results showed that both returns on S&P 500 and on MSCI world
index did not significantly explained FII inflows to India. This gives proof to the absence of informational disadvantage effect of East Asian crisis on the FII investment in the Indian markets. Returns emerged as a significant explanatory variable during the post-crisis period. There existed bi-directional causality between FII net investment and SENSEX returns and Nifty returns. Regarding the causal relationship between the FII investment inflow and volatility, variance of SENSEX caused FII flows, there was a bi-directional causality before the crisis period which was absent in the post-crisis period, which also had support proof from the OLS regression analysis.

Ananthanarayanan (2004) studied that as part of its initiative to liberalize its financial markets, India opened her doors to foreign institutional investors in September, 1992. This event represents a landmark event since it resulted in effectively globalizing its financial services industry. The impact of trading of Foreign Institutional Investors on the major stock indices of India was studied. The major findings are as follows. First, it was found that unexpected flows have a greater impact than expected flows on stock indices. Second, there was strong evidence consistent with the base broadening hypothesis. Third, evidence regarding momentum or contrarian strategies being employed by foreign institutional investors was not detected. Fourth, findings support the price pressure hypothesis. Finally, there was no substantiation to the claim that foreigners destabilize the market.
Pal (2004) found that FIIs are the major players in the Indian stock market and their impact on the domestic market is increasing. Trading activities of FIIs and the domestic stock market turnover indicates that FIIs are becoming more important at the margin as an increasingly higher share of stock market turnover is accounted for by FII trading in India.

Kulwantraj (2004) made an intensive study to find out the determinants responsible for the flow of FIIs and their degree of impact. With the help of monthly data they found out that FII inflow depends on stock market returns, inflation rates (both domestic and foreign), and ex-ante risk. In terms of magnitude, the impact of stock market returns and the ex-ante risk turned out to be the major determinants of FII inflow. Rao (1999) in their study of foreign institutional investments and Indian stock market found that the net FII investments influence the stock prices in India.

Bhupender Singh (2005) in his research discussed about as to how the financial sector of an economy plays a vital role in attracting the Foreign Institutional Investment inflows. The study tries to examine the extent of effect of significant macroeconomic variables; inflation and exchange rate on the flows of Foreign Institutional Investment in India. He has tried to analyze the inter-relation between Foreign Institutional Investment, Exchange Rate and Inflation. Given the large volume of these flows and their impact on domestic financial markets;
understanding the major determinants of these flows becomes imperative as the economy has now moved towards full capital account convertibility.

Douma et al. (2006) investigated the impact of foreign institutional investment on the performance of emerging market firms and found that there existed positive effect of foreign ownership on firm performance. It was also found that impact of foreign investment on the business group affiliation of firms existed.

Roy (2007) explored the basic motives behind foreign portfolio capital flows into India. He found that they are primarily driven by capital gains, and in the Indian case, by the change in stock prices. The study further revealed that stock prices are causing net foreign portfolio inflows and not vice-versa. Further, he found bi-directional causality between the exchange rate and net foreign portfolio inflows.

Narayan Sethi (2007) studied the capital flows and growth in India. The international capital flow like direct and portfolio flows has great contribution to impact the economic behavior of the countries in a positive way.

Babu & Prabheesh (2008) found that using Granger-Causality test on daily data from January 2003 to February 2007 revealed the existence of bidirectional causality between FII flows and stock market returns. The analysis through
impulse response function indicates that FII flows were more stock return driven. It also found support for information revelation hypothesis and momentum trading hypothesis.

Prasanna (2008) reveal that FIIs have gained a significant role in Indian capital markets. Availability of foreign capital depends on many firm specific factors other than economic development of the country. In this research, the contribution of foreign institutional investment among companies included in SENSEX of Bombay stock exchange was examined. The relationship between FII and firm specific characteristics interns of ownership structure, financial performance and stock performance was analyzed. It was observed that foreign investors invested more in companies with a higher volume of shares owned by the general public. The promoter’s holdings and foreign investments are inversely related. Foreign investors choose the companies where family shareholdings of promoters are not substantial. Among the financial performance variables the share returns and earnings per share are significant factors influencing their investment decision.

Ghosh & Herwadkar (2008) in their empirical testing revealed that in the short run a shock in net FII flows has a positive impact on equity (BSE Sensex) market and negative impact on money market (Call) rate, benchmark yield and
INRUSD exchange rate (indicating rupee appreciation) and the magnitude of these responses to a shock in net FII flows dampens over time.

Bodla and Ashish (2009) explains that India has emerged as one of the most attractive investment destinations for the foreign capital inflows through FIIs. To formulate the policy regarding FIIs, it is essential to determine their relation with economic variables. These purposes was facilitated by the monthly data sets pertaining to stock market capitalization, trading volume, FIIs flows and other related variables taken for a period of 15 years ranging from January 1993 to December 2007. It was analyzed by using the Granger-causality test to determine the relation of FII purchase, sales and net investment with stock market capitalization and trading volume. It was found that the net investment made by the FII in Indian stock market act as a casual force of market capitalization.

Mohan (2009) explain that a combination of sound macroeconomic polices, prudent debt management, exchange rate flexibility, the effective management of the capital account, the accumulation of appropriate levels of reserves as self-insurance and the development of resilient domestic financial markets that provides the optimal response to the large and volatile capital flows to the EMEs. How these elements are best combined will depend on the country and on the period: there is no ‘one size fits all’’. Since the beginning of 2000s, empirical studies have concentrated on capital flows in India and its impact on domestic
macro variables. In this context a study by Dua and Sen (2005) found that the real effective exchange rate is co-integrated with the level of capital flows, volatility of the flows, high-powered money, current account surplus and government expenditure.

Chittedi (2009) analyzed the performance of sensex v/s. FIIs and some of the most talked about movements of the sensex, starting with the secondary market summary of each year. Foreign investments in BSE reveal that the liquidity as well as volatility was highly influenced by the FII flows. FIIs are significant factor in determining the liquidity and volatility in the stock prices.

Dhwani (2009) opines that Indian stock markets is experiencing humungous amount of FII flows. This has affected small investors thinking that markets are rigged. For the good news to Indian investors it has been established that out of all the factors, it is basically the performance of Indian stock markets vis-à-vis other emerging and developed markets that probably may cause returns and not the other way round.

Bansal and Pasricha (2009) studied the after impact of opening market to FIIs on Indian stock market behavior. They empirically analyze the change of market return and volatility after the entry of FIIs to Indian capital market and found that there is no significant change in the Indian stock market average
returns. The volatility got significantly reduced after India unlocked its stock market to foreign investors.

Jayachandran and Seilan (2010) investigate the relationship between trade, Foreign Direct Investment (FDI) and economic growth of India over the period 1970-2007. The results of Granger causality test show that there is a causal relationship between the examined variables. The direction of causality relationship is from FDIs to growth rate and there is no causality relationship from growth rates to FDIs.

Agrawal et al. (2010) empirically investigated the causal relationship as well as the degree of interdependency between Nifty and FIIs investment in Indian economy. Normality of time series was checked and found that both Nifty and FII are not normally distributed. Nifty was found to be non-stationary and FII to be stationary at level itself. They also applied correlation test that indicates that Nifty is positively correlated to FII. Correlation between FII and Nifty was the maximum in the bear phase as compared to all other phases. Gusarova (2009) in this study investigated the impact of capital flight on economic growth. The findings manifested that capital flight has a negative impact on GDP growth. The results are not robust to specifications, which account for region or year effects. He further analyzed the impact of capital flight on the GDP growth in the developing countries and countries in transition. This impact has a country-
individual origin. However, after controlling for the years effect, the capital flight turned out to have no significant effect on GDP per capita growth. He cited three major reasons for this: measurement error; the amount of observations available could be not enough to obtain a significant result and the effect of capital flight on the GDP per capita growth could be too small to be significant.

Verma and Prakash (2011) found that the interest rate sensitivity of FII flows is not statistically significant and concluded that the BSE Sensex is a major pull factor for these flows into the domestic financial markets.

Jain et al. (2012) studied the behavioral pattern of FII during the period of 2001 to 2010 and examined the volatility of BSE Sensex due to FII. The data for the study uses the information obtained from the secondary resources like website of BSE sensex. Researchers explained that stock market regulations have improved transparency for the FIIs. Impact of foreign institutional investment on stock market and Indian economy is studied with Pearson’s correlation coefficient. FII flows have both cause and effect relation on stock market reforms. However huge FII fund low would result in inflation in the economy.

Loomba (2012), attempted to develop an understanding of the dynamics of the trading behaviour of FIIs and effect on the Indian equity market. The study is conducted using daily data on BSE Sensex and FII activity over a period of 10 years spanning from 01st Jan 2001 to 31st Dec 2011. It provides the evidence of
significant positive correlation between FII activity and effects on Indian Capital Market. The analysis also finds that the movements in the Indian Capital Market are fairly explained by the FII net inflows.

Srikanth and Kishore (2012) explain that economic growth is a function of, among other things, capital formation. Portfolio inflows from FIIs inject global liquidity into capital markets and raise the price-to-earnings ratios, thereby reducing the cost of capital. This leads to further issues of equity capital and stimulates investment growth in the host economy apart from bringing in best corporate governance practices. FII inflows offer dual advantages, i.e., they are a source of non-debt creating capital flow into the economy and the exchange rate risk is borne by the foreign investor. Yet, FIIs have been targets of criticism for characteristics such as return chasing and herd behaviour; hot money inflows; short-term, speculative gains; and their influence on domestic policy-making.

There are economic indicators, stock market indices and foreign investor’s preferences based on the growth indicators that influence the investment of FII in Indian stock market. The investment preferences identified by the previous researchers are discussed.
3.4 Investment Preference of FIIs

Dahlquist et al. (2003) analyzed foreign ownership and firm characteristics for the Swedish market. It was found that foreigners have greater presence in large firms, firms paying low dividends and in firms with large cash holdings. It was observed that firm size is driven by liquidity. International presence by foreign listings and export sales was measured. They reiterated that foreigners tend to underweight the firms with a dominant owner.

Leuz et al. (2003) further asserted that the information problems cause foreigners to hold fewer assets in firms. Firm level characteristics can be expected to contribute to the information asymmetry problems. Concentrated family control makes it more likely that information is communicated via private channels. Informative insiders have incentives to hide the benefits from outside investors by providing opaque financial statements and managing earnings.

Haw et al. (2004) also found that firm level factors cause information asymmetry problems to FII. Their research found evidence that US investment is lower in firms where managers do not have effective control. Foreign investment in firms that appear to engage in more earnings management is lower in countries with poor information framework.
Li and Jeong-Bon (2004) found that foreign investors tend to avoid stocks with high cross-corporate holdings. They suggested that FII are likely to be efficient processors of public information and are attracted to Japanese firms with low information asymmetry.

Aggarwal et al. (2005) observed that foreign investors preferred the companies with better corporate governance. Investor protection is poor in case of firms with controlling shareholders who have ability to expropriate assets. The block shareholders affect the value of the firm and influence the private benefits they receive from the firm. Companies with such shareholders will find it expensive to raise external funds.

Yin-Hua and Woidtke (2005) found that when company boards are dominated by members who are affiliated to the controlling family, investor protection will be relatively weak and it is difficult to determine the degree of separation of management from ownership. It was observed that firm value is negatively related to board affiliation in family controlled firms.

Choe, Kho and Stulz (2005) found that US (United States) investors do indeed hold fewer shares in firms with ownership structures that are more conducive to expropriation by controlling insiders. In companies where insiders are dominating information access, availability to the shareholders will be limited.
With less information, foreign investors face an adverse selection problem. So they under invest in such stocks.

### 3.5 Problems Faced by FIIs

Dabos and Juan-Ramon (2000) concentrated on the intricate relationship between capital flows and financial markets. The recent literature has acknowledged the risks associated with the capital flows and indicated that the most effective way to deal with capital inflows would be to deepen the financial markets, strengthen financial system supervision and regulation, improve capacity and implement sound macroeconomic or financial sector policies. These actions will help in increasing the absorptive capacity and resilience of the economies and financial systems to the risks associated with large and volatile inflows. There are specific strategies adopted by FIIs for investment in India. The researches made in this area are studied and discussed.

Raju (2009) analyzed Indian stock market, more importantly the NSE was in limelight after liberalization contributed by technology, regulators and FIIs. Since the number of participants in the stock market has been continually increasing and spreading the access from institutional (domestic and foreign) to retail investors. FIIs were the dominant players in the stock markets, and accordingly the stock market regulations are most focused on the FIIs than on the retail investors. This study focuses on the problems experienced by the retail
investors in stock broking hindering their regular process of trading and sometimes resulting in losses which needs the focuses attention of the regulators. This study revealed that the retail investors have problems in the process of trading, clearing and settlement process of NSE which were either related to the respective stock broker where the investor is trading with or to the market (NSE) or both.

Koustubh (2009) analyzed that, the year 2008 has been a year of global slowdown and slump for the global equity market, in general and stock markets of India, in particular. During 2008, SENSEX (BSE index) fell down from 21,206 (Indian historical high of SENSEX) to 16,000 points in a single month, i.e., in January 2008. In October 2008, it crossed the support level of 800 points. Weak global atmosphere coupled with heavy selling by FIIs and hedge funds led to this market crash. Against this backdrop, this paper analyses the investment behavior of student investors. Furthermore, the purpose of the study is to identify the factors responsible for this crash and investigate whether the investment objectives and factors influencing investment decision making are different during and after the market crash. This empirical study is based on the information given by those who invest and actively trade in the equity market. The results obtained in this research suggest that the behavior of market participants during the speculative bubble was to some extent unreasonable and that the composition of investments has changed as a consequence of market crash. When compared the time period after the
speculative bubble, information available from companies gained significance for all investors. This specifies an increase in the importance of fundamental data of the companies after the crash than during the speculative bubble, when intuition and other unclear valuation methods seemed to have influenced investments to a greater extent.

Jankisuya et al. (2009) examines in their study the interaction between changes in the exchange rate of Indian rupee and returns on different BSE-based indices representing the firms of different sizes and industries. In absolute sense, the returns on all the stock portfolios are found to be positively correlated with the external value of Indian rupee. However, the analyses with an extended market model of asset pricing shows that the indices of export-oriented industries are negatively associated with the change in exchange rate, after making the adjustment for market trend. Among them, IT technology and knowledge-based sectors show high sensitivity towards exchange rate fluctuations. On the other hand, the indices of financial sector and import-intensive industries show a positive association with the exchange rate of rupee. The VAR model shows one way-causality running from stock prices to exchange rate. This suggests that the portfolio rebalancing activities of FIIs have a more important role in the dynamic interaction between stock prices and exchange rate.
Sham et al. (2010) employed Augmented Dickey Fuller and Philips-Pearson tests to examine the stationary of both the net FIIs and NSE market return series. Instantaneous Granger-Causality test were also employed to examine the contemporaneous relationship between net FII flows and equity market returns in India for the pre-global financial crisis and during the crisis period. By and large, the analyses revealed that there was an evidence of negative feedback trading hypotheses and positive feedback trading hypothesis by foreign investors before the global financial crisis period and during the crisis period respectively. This implies that FII acts as a smoothening effect and destabilizes forces before and during the crisis period respectively. However, such positive feedback trading strategies from FIIs seems to be the rationale during the period of global financial crisis.

Towards the end-1990s, especially after the outbreak of economic crisis in South East Asian countries, issues such as volatility of the ‘hot’ capital flows and their impact on the recipient country, problems relating to contagion etc. have increasingly occupied the centre-stage of academic research. Subsequently, many policy makers and economists became skeptical not only about the benefits of free flows, but also viewed uncontrolled capital flows as risky and destabilising.
3.6 Strategies Adopted by FIIs

Vasudev and Poonam (2000) analyzed Canadian pension funds from the perspectives of corporate governance and the capital markets. It reviews the investment allocations and revenue patterns since the 1990s and identifies significant changes. The research found that pensions funds, as shareholders, have turned more activist and they wield considerable influence on corporate governance. They also contribute to shaping public policy, as evident from the relaxation of the rules on foreign investment and the removal of restrictions on communications among shareholders. This research predicts that the role of pension funds will likely further expand in the future, given the constant rise in their resources and increased awareness of the need for responsible shareholder activism. Pension funds are ideally suited to be responsible shareholders who can effectively engage with the corporations, particularly in the areas of director elections and promoting corporate accountability.

Kim and Singal (2000) analyzed, through empirical models, the benefits and risks associated with capital flows by examining the experience of emerging economies around the time the foreign investment in stock market was allowed. It was investigated the impact of the capital flows on stock returns, stock market efficiency, inflation and exchange rates. It also examined the effects on different kinds of volatility that might arise as a consequence of capital flows; volatility of
stock returns, volatility of inflation and volatility of exchange rate. A sample consisting of 20 emerging stock markets was taken from the data provided by IFC in its emerging markets database. To evaluate the impact of market liberalization on selected economic variables, 10 years (five years before market opening & five years after market opening) data were used. From the analysis, it was found that globalised stock market significantly increased the stock prices without a concurrent increase in stock return volatility. The increase in stock prices was consistent with lower expected returns and a lower cost of capital. The empirical investigation also revealed that inflation rate, on average, fell after stock market liberalization. There is no evidence of an appreciation of the local currency that may adversely affect competition abroad was found. By testing the random walk hypothesis, they found that the stock prices were less auto-correlated subsequent to market opening. The increased randomness of returns is likely to suggest an improvement in market efficiency. A more efficient market means better allocation of capital and an increased productivity of capital. The study concluded that rather than imposing controls on capital flows, capital markets to be made more open and transparent.

Funke (2002) attempted to produce empirical evidence on the link between stock market developments and private consumptions in emerging markets. The empirical analysis focused on 16 emerging markets in which stock markets to foreign participation over the last 15 years. The analysis included all emerging
markets provided evidence for a small, but statistically significant, relationship between stock market development and private consumption. Private consumption does react to changes in stock market prices, and there was evidence that consumption had become more sensitive to stock market changes in the 1990s but there was no significance evidence of asymmetries in the effect.

Meenakshi and Sanjay (2005) examined by providing insights about the way technical traders operate in the financial market and the trading strategies that they adopt. The survey covered institutional and individual technical traders with a long and active trading record for the Indian market. It was observed that the sample respondents tend to use technical analysis along with fundamental analysis for security selection. By fitting the technical tools mainly on the equity segment of the market and relatively prefer their use during the market upturns. And it was further felt that volume indicators provide independent information compared to price indicators. It was seem to be using the classical technical tools more frequently while sophisticated technical trading systems as well as time series econometric tools were relatively less important to them. It was believed that the choice of tools is not related to company characteristics such as size, relative distress and leverage.

Chien-Liang et al. (2008) examined that audit opinions provide strong signals to investors or debt holders warning of firm’s default probability. When
foreign investors were allowed to enter the Chinese stock market, the role of audit opinions grew in importance. In this study, it was found that the relationships between audit opinions and default probability within the Chinese stock market, and explore whether there was any significant shift in this relationship following the entry of Qualified Foreign Institutional Investors (QFIIs). It was found that audit opinions began providing signals of potential default risk only after QFIIs entered the market. This study provides support for institutional theory through the provision of empirical evidence showing that audit opinions, as signals of potential default risk, may actually be less efficient in immature markets than in more mature markets. Furthermore, the role of audit opinions in providing such signals to outside investors can clearly be affected by the introduction of new monitoring mechanisms. The results imply that market maturity could prompt firms to provide more accurate information.

Neeta and Sanjay (2009) evaluated by adopting Foreign Institutional Investors (FIIs) positively feedback and herding strategies in the Indian environment. It was found that FIIs exhibit return chasing behaviour by using monthly data. However, they do not seem to be working on the positive feedback strategy by using daily files. This may be owing to the fact that they wait for the market information to crystallize and do not react to it in an instantaneous manner. It is also observed that the FIIs display strong herding behavior based on quarterly shareholding pattern. The herding behaviour seems to be stronger at the aggregate
level than at the individual stock level. This may be explained by the fact that FIIs are more cognizant of corporate fundamentals at the individual stock level. Further, the market cycle behaviour may vary from such cycles for individual stocks. The findings have strong implications for domestic financial institutions, portfolio managers, wealth managers and other investors as well as market regulators who wish to have better understanding of FII’s behaviour as the later are the dominant investors in the Indian equity market.

Takeshi (2009) examined the causalities in mean and variance between stock returns and foreign institutional investment (FII) in India. The analysis in this research applies the cross-correlation function approach from Cheung and Ng (1996), and uses daily data from January 1999 to March 2008 divided into two periods before and after May 2003. Empirical results showed that there are unidirectional causalities in mean and variance from stock returns to FII flows irrelevant of the sample periods, while the reverse causalities in mean and variance are only found in the period beginning with 2003. These results point to FII flows having exerted and impact on the movement of Indian stock prices during the more recent period.

Rau and Gopinath (2009) explain that FII’s are institutions established or incorporated outside India, which proposes to make investment in Indian securities. The FII’s have been playing key role in the Indian capital market, since
their entry in the early 1990’s. Their importance has been growing overtime and their net investment is on the rise in the recent past. This portfolio flows by FII’s bring with them great advantages as they are engines of growth while lowering the cost of capital in the emerging market. This research indicates whether Foreign Institutional investors have emerged as the most dominant investor group in the domestic market or not.

Aabha and Hetal (2010) explain that volatility of stock market goes beyond anyone’s reasonable explanation. Any news or events pertaining to economy directly or directly brings lot of volatility in the market. Many factors like Inflation, activities of FII, Instability in political party, US recession, industrial growth rate etc affected the stock market in year 2008. The Indian stock market has grown and growing in terms of volume since last decades. One can give credit to FII for the growth in the market. It has contributed a lot and still contributing. But along with it has brought positive as well as negative impact in the market. An Analysis is of the opinion that FII has a direct relationship with the volatility in the market. When they turn into a net buyer, the market response positive i.e. market goes up and vice-a-versa. The paper focuses on FII, their activities, continuation and how they are correlated with the volatility in the stock market. Here stock market - BSE SENSEX data from January 2007 to December 2009 is covered for the analysis purpose.
3.7 Overview

Research during the periods 1999 and 2007 reveal causal relationship between stock market returns and FII flows and it was found that domestic and international variables likely to affect FII flows. Correlation between foreign inflows and market returns is high during bear and weakens with strengthening equity prices due to increased participation by other players. It was found that domestic macro factors play an important role in determining FII flows. It was also found that unexpected flows have a great impact than expected flows on stock indices. There existed a strong evidence of FIIs changing trends and adopting positive feedback trading strategies at the aggregate level on a daily basis during 2002. It was found that the net investment made by the FII in Indian stock market act as a casual force of market capitalization.

Research during 2008 revealed that promoter’s holdings and foreign investments are inversely related. Foreign investors prefer the companies with more public holding for investment. Among the financial performance variables the share returns and earnings per share are significant factors influencing their investment decision. FIIs wait for the market information to crystallize and do not react to it in an instantaneous manner. It is also observed that the FIIs display strong herding behavior based on quarterly shareholding pattern. The herding behaviour is stronger at the aggregate level than at the individual stock level.
Studies reveal that FIIs investments do not respond to the short-term changes or technical position of the market and they were more driven by market fundamentals.

A thorough review of the relevant literature with respect to FIIs in the emerging stock market revealed the inadequacies in their analysis particularly with regard to data insufficiency, order of samples, inaccurate data and more complex methodological approach. All these have limited the scope of their generalization. Further, only a few studies carried out the data analysis with a classified data. The company wise data analysis to find out the impact of FIIs on specific stocks for the period 2001-2013 was attempted inadequately. Hence the researcher has made an attempt to understand the trend and behavior of FIIs in Indian market.