CHAPTER - 1

Introduction

1.1 The Background

Foreign investment\(^1\) is considered as one of the major sources of economic change for any country irrespective of its growth status in the contemporary globalized world. Countries striving for foreign investment-led growth have been increasingly accepting and adopting a positive policy framework congenial to foreign investment. India is one of the largest emerging economies in the world and has been undergoing a radical process of restructuring and transformation since the early 1990s. The openness of the Indian economy in 1991, initiated by the Govt. of India brought about a new era of globalization for the Indian corporate sector. With liberalization & privatization being the hallmark of the new economic policy, Indian corporate sector was given opportunities for global expansion and alliance. Foreign Institutional Investment and Foreign Direct Investment are expected to play a crucial role for the Indian corporate sector in fostering its growth, competitiveness and expansion to the touch global standards of development.

Indian corporate has gradually boarded the global path, leading to the emergence of Indian multinationals. Indian industry has crossed domestic frontiers and established a credible presence in markets abroad. In fact, the flow of money for corporate sector is also at a record high. Even inflows from foreign institutional investors (FIIs) in the Indian equities market touched a record level of $16.995 billion during 2007, as against $7.993 billion during 2006. The data with the market regulator shows little wonder. The United Nations Conference on Trade and Development (UNCTAD), in its World

\(^1\) In the present research, foreign investment has been defined in terms of percentage of foreign stake holding in the Indian companies i.e., BSE-30 companies.
Investment Report, 2007, rated India the second productive destination for foreign investment, next to China and ahead of Russia and Brazil.

Foreign investment has been playing a significant role in the growth and development of world economy, particularly in developing economies. The developing countries generally have low income, capital accumulation machinery and equipment, expertise with a bulk of untapped natural as well as human resources. The problem of low amount of capital, low growth rate, untapped natural and human resources, high rate of inflation, unemployment, balance of payment problems and other structural and administrative rigidities since independence have compelled India in mid 1991 to adopt some stabilization and structural reform measures of far reaching consequences.

1.2 Review of Literature

The study has been carried out by Jayalakshmi (2012) with the major objectives to analyze the growth and trend of Foreign Direct Investment inflows to India and to study the relationship between FDI inflows and Economic growth both prior and after the Global Financial Crisis by calculating Karl Person’s coefficient of correlation for the variables, FDI inflows and Index of Industrial Production (IIP). Findings of the study displays the necessity to relax foreign investment policies further, raise ceiling on foreign participation, and be less stringent when it comes to implementing environmental and land acquisition norms as FDI is beneficial to India’s growth and India’s growth is beneficial for FDI inflow. The above study does not show anything related to entry of foreign investment in Indian corporate sector. Hence it prompts the researcher to find out the relationship between foreign investment and changing status of Indian corporate.

Sunitha (2012) has made an attempt to notify the impact and challenges, if FDI is allowed in retail. Both organized and unorganized sector will face adverse competition from global players. Talking about the organized sector, which consist of big Indians players who have entered in retail sector just to take advantage of diversification and expand their business. The study concludes that for allowing foreign investment in retail, a number of preconditions in the industrial and agricultural sectors should be met. If government fails to do so small manufacturers, vendors and small retail shops will bear the burnt of the blow and millions will be rendered jobless. It appears from the findings
that the study is restricted only to the impact and challenges of FDI on organized and unorganized sector of India leaving an opportunity to look into the extent of impact of aggregate foreign investment on the performance of the Indian corporate sector.

Sharma (2012) in his study shows the impact of Foreign Direct Investment inflow on the Indian Service Sector with special reference to information and Communication. The author has argued that FDI is widely considered to be beneficial for the host economy since it can result in positive externalities through various transmission channels like transfer of technology, increased competition and imitation effects. Moreover, the study has focused specifically on information communication and concluded that there is a high need from the government side to take some initiatives to increase the volume of foreign investment inflow.

As discovered by Aluvala (2011), on one side foreign direct investment inflow to India has been increasing and on the other, regional distribution of the same is going uneven. The study suggests that in order to ensure a more equitable regional distribution of such flows, both central and state government should take concerted strategy for improvement in infrastructure facilities and creation of sound economic and political environment. Development in infrastructure, especially power and transport network is an immediate need of the time. Thus the study leaves a scope for the researcher to look into the impact of foreign investment on firm level performance.

The empirical findings of Prasanna (2011) show that inward foreign direct investment has significantly contributed to the export performance of India during 1991-92 and 2006-07. FDI may well lead only to a short-lived hump in export performance. To build a more capability base will allow countries to plug into the dynamics segment of export activity (UNCTAD-1999). But this study does not throw any light on firm level performance of foreign investment in general which may be explored.

Rao (2011) demonstrates Government policy towards foreign investment in India. The study aims to envisage that the percentage of shares for proportion of directors on the board does not necessarily represent the extent of control and therefore more direct
intervention would be required if the policy objectives are to be achieved. The foreign investment limit cap imply a joint venture framework as the remaining equity is expected to be held by local partners. The author has taken a case study of Max New York life, Bharti AXA life insurance and Tata AIG General Insurance to justify the argument. The study explores policy implication on management control and direct invention of foreign investor limited to explaining the impact of foreign investment on management control only. This provides a space to dive into the gap area i.e. examining the impact of foreign investment on individual firm’s performance.

Gupta (2010) study attempts to identify the key variables-domestic and international that affect the share prices. The empirical findings show that sensex depends on both domestic and international factors. The movement of sensex is governed by the growth of industrial production and the flows of foreign institutional capital. Policymakers need not to be aggressive to attract FIIs to keep the market strong. The stock market depends only partially on foreign capital.

Rudra (2010) the study examines the relationship between one of the firm level policies relating to information asymmetry and foreign institutional holdings in India during this decade. The author has examined the adoption of high quality voluntary disclosure policies as mechanisms for Indian firms at attract foreign investment. The result shows that, over and above other firm characteristics, foreign investors allocate their asses largely to firms in India that have better voluntary disclosure practice. The finding highlights the important role of high quality disclosures in attracting foreign investment. These results are relevant for firms in India seeking foreign capital to help promote economic and firm growth. The study focuses on voluntary disclosure practices which is a very limited dimension and thus leaves a scope to look in to other characteristics of Indian corporate which also helps the foreign companies to allocate their investment in the Indian companies.

Srinivasan (2010) Study examines the casual nexus between foreign direct investment and economic growth in India during the post liberalization period. The empirical result revealed that unidirectional causation is running from economic growth to foreign direct investment both in the short-run and long run in India.
The study of Singh (2010) deals with dimensions and trends of FDI in India since 1990s, the structure of FDI towards the service sector and analyses the future prospects of FDI in the wake of the global turmoil and financial instability. The empirical results indicate that there is a reason to be optimistic about the medium-term future. The Indian economy has started reviving by around the end of 2009, and has started attracting foreign investment. Indian remains one of the fastest growing economies in the world with a large internal market, making it an attractive destination for FDI as well as for foreign institutional investors (FIIs).

Pradhan (2010) the objective of the study was to trace the impact of trade openness on FDI inflows in the economy during the period 1980-2007. The study has found that openness has substantial impact on FDI inflows. While its impact was both positive and statistically significant in the post –globalization era (i.e., during 1991-2007), it had no significant impact during the pre-globalization era (i.e., during 1980-1990). The findings suggests that trade openness and FDI inflows are not substitutes for each other; rather, an increase in trade openness and FDI inflows into the economy. The study concludes that the trade openness policies for government have been very successful in attracting FDI inflows, especially in the post 1990s.

Shah (2008) has examined the FII inflows into India which yields fascinating explanations at the level of both macro economics and firm characteristics. He has found that FIIs have convertibility on the equity market, and that is the most important single element of India’s de jure openness.

Nidheesh (2008) has pointed out that globalization in the financial service industry has enlarged access to local investors to global market and global investor to Indian domestic market. As a matter of fact Indian stock market has willingly accepted FII investment in India. In 1993 government of India has announced a list of policies to permit the FII investment in Indian capital market. SEBI has modified the regulations on 14-11-1995. Moreover on the ground of placing FII in Indian capital market the author has investigated that all foreign institutional investors have to first register with securities exchange board of India. If not then they have to bring the approval from Reserve Bank of India or the foreign institutional promotion board.
It was found from the author’s investigation that various government policies mostly render FII investment sensitivity to the domestic market returns and raise the slowness of the FII flows. Foreign institutional investors had emerged as the most dominant investor group in the domestic stock market in India. Predominantly, in the companies that constitute the Bombay Stock Market sensitivity index the level of control was very high. The author has referred to the data on shareholding pattern which showed that the FIIs were positioned as dominant non-promoter shareholders in most of the sensex companies and also controlled more tradable shares of sensex companies than any other sensex group. The complete study shows shareholding pattern of FIIs. The Researcher has also found that the FIIs investment is highly concentrated in terms of their market value in very small number of companies. There seemed to be clear distinction in the FIIs shareholding in nifty and non-nifty companies.

Chellaswamy (2008) in their study describe the nature and characteristics of foreign institutional investors. It has been found that there are similarities in domestic investors and foreign institutional investors in terms of their characteristics and investment patterns. Being foreign institutional investors they get more scope as far as investment options are concerned. Moreover, the study also focuses on the procedure part of participation by FIIs in the Indian financial market and their investment in India with the list of companies and yearly total volume. Thus, the study reflects the total investment of FIIs in India in various companies. It has also been highlighted in the last part of the study that the presence of FIIs in the Indian markets demands the growing role of the Indian capital market and the evolution of the institutions and financial structures to support it. Foreign investors may be worried about the macro–economic policy because of the greater perceived currency, political and inflation risk. It is certain that the bargaining power and flexibility and ability for the market are greater with the FIIs than with the domestic investors.

Hence, the authors conclude that the government has to move fast to improve the functioning of stock markets and the regulatory system, which can curb undesirable speculation and ensure an ordering functioning of the markets during the crisis situation. Further researchers have also pointed out that “It is very necessary that we take steps to ensure that our entire financial system does not get affected to a large extent with the investment of foreign institutional investors”.


Shah (2008), in his press release has shown that foreign institutional investors are rushing into get registered in India. Moreover, it also tells about total number of FIIs in India. Indian market still provides a lot of opportunity for foreign clients and there was momentum in the market too. Further he has mentioned about the market players pointing out the sharply appreciating rupee as one of the factors encouraging foreign players to park their money to India.

Mahajan (2008) the study overviews the relationship of liberalization and foreign direct investment which points out that liberalization of economy is at the top of all the developing economies while formulating economic policies for accelerating the economic growth. In 1991, the government of India has adopted the means of liberalization of its economy which has led sharp rise in foreign direct investment inflows in India. The author aimed at investigating the impact of liberalization on FDI inflows in to India both aggregate and source country-wise. The study considers annual data for a twenty–four –year period (1981-2004) and concluded with major findings on the impact of liberalization on aggregate FDI inflows and source country-wise FDI inflows into India. The author has observed that aggregate FDI inflows in to India have revealed a tremendous increase except in the year 1997 in the post liberalization period. In the case of source country-wise FDI inflows in to India, Japan showed a significant increase in comparison to other countries. Mauritius has also emerged as a major investor since liberalization. The regression technique used by the author also depicts that liberalization had a significant impact on aggregate as well as source country-wise FDI inflows

Sethi et al. (2007) have focused on significant benefit of international capital flow into Indian economy. It has envisaged that the International capital flows have increased dramatically since the 1980s. During the 1990s gross capital flows rose by 300%, while trade flow increased by 63%. Much of the increase in capital flows is due to trade in equity and debt markets. The nature, volatility and impact of international capital flows are still debatable issues. The study has attempted to test whether international capital flows have positive impact on economic growth with the help of macroeconomic variables in the economy.
Ambhore (2007) study reflects that foreign direct investment is a complex phenomenon of different dimensions. There are both pros and cons in FDI in different sectors. Foreign investment is benefiting developing countries for infrastructure development and manpower development. The author has concluded investigation by providing an overview of foreign direct investment in India. During the last decade India was not able to prepare herself in planned way to face globalization. Special economic zones have been announced. Like-wise, foreign economic zones must also be developed to have more resources, more job opportunities and new productive development. Indian economy is in a take off stage, and in this stage of transition foreign investment can provide new boost. Infrastructural areas, which are weak, need a more serious treatment.

According to Pandian (2007) the issues that are pondered relate to the negative effects of permitting Hypermarkets and FDI in the retail sector and its consequence on consumers, the survival of small shop owners and unorganized segment of the market. A new dimension studied is the phenomenon that brings in spiraling effect on prices of consumer goods due to which the population below poverty line may increase.

Nagori and Ghumare (2007) focused on FDI as India has become the most preferred and attractive destination for foreign investors. The notable point is that many Indian firms also started to invest abroad on a very large scale with sometimes some takeovers in industrialized countries. The reforms undertaken since 1991 in India have ascertained the potential growth of the economy and stimulated international trade, outsourcing and FDI. At the same time, some Indian firms have become global players. The study gives great detailing of the FDI made in various countries.

Fowdar (2007) has studied Institutional investors’ selection criteria for stock brokerage firms. The findings revealed various indicators like, Credibility and reliability, Understanding clients, Scale of the firm and expertise. The study covers various aspects of service quality sought by institutional investors when selecting stockbrokerage firms. Moreover it includes participatory and regulatory norms set up Indian government for the entry of FII in Indian Corporate. Henceforth, this research will help understand the technical aspect of FII participation.
Foreign Direct Investment refers to “investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country” (Cherunilam, 2007). FDI implies that the investor exerts a considerable degree of influence on the management of the enterprise resident in the Impact of FDI in India other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Flows of FDI comprise capital provided by a foreign direct investor to an FDI enterprise, or capital received from and FDI enterprise by a foreign direct investor. (Jain, 2006)

Puspa et al. (2006) studied the determinants of FII Investment Inflow to India and its impact on stock market. The specific focus of the study comprises the factors determining the flow of FII funds to India; the nature and direction of causality between returns on Indian share markets and FII investment inflows; whether FIIs cause volatility in the Indian share markets or FII investment in India; and existence of lack of the informational disadvantages to FIIs. Concluding remarks in the given study was the relationship between the FII investment and the Economic development still remains highly debatable .The spurt in IPOs due to increased interest amongst investors, which is expected to reduce cost of capital, is yet to be witnessed in India. Hence it can be said that although FIIs have been net investors in the Indian capital markets.

Esarwaran (2006) study has focused on the need of foreign investment in the form of foreign direct investment (FDI) and Foreign Institutional Investment (FII). He argues on the ground of capital flows to various needy sectors. He has attempted to prove that FII is the advisable option to bridge the savings-investment gap which ultimately helps Capital formation by making available risk capital for entrepreneurs with viable investment ideas. The study covers the feasibility of procurement of fund from companies’ point of view.

Shah and Omkarnath (2006) in their study have argued that there is widespread belief that institutional investors, particularly the foreign Institutional Investors (FIIs) play a major role in the movements of the leading Indian stock indices. Their study has
empirically investigated the manner in which the activities of FIIs and mutual funds impact the Indian stock market. They have used the daily data from January 31, 2003 to January 31, 2005 and applied techniques such as OLS, GARCH-x and VAR for empirical analysis. The result shows that FIIs are the positive feedback traders and hence destabilize the Indian stock indices.

Bhattacharya et al. (2006) have found that the growth of Indian economy is largely linked with the changing dynamics of Indian stock markets. The upward stage of Indian stock market has been found mostly in India after the independence period. With rising of stock Markets government has also setup norms and regulatory framework to protect investors from fraud and distort of their investment. Regardless of all these controlling norms Indian stock market could not be totally clean from defraud. But the market was really grown in a different fashion after financial reforms which opened the doorway for FII inflow. In the year of 2006 the Indian market has attained a phenomenal height. The study attempted to frame a brief account on the changing dynamics of Indian stock market and tried to explain the growth of the market in the light of various economic as well as international aspects. The study focuses on changing dynamics of Indian stock market where FII is one of the parts which affects on overall growth of Indian economy.

Farooqui (2006) emphasized the FDI policy imperatives on Retail Industry. The argument that the advent of FDI and supermarkets will displace a large number of Kirana shops is similar to the era of industrial licensing, which was meant to protect small scale industries. The impact of FDI on other sectors like insurance has also been stated. But the article in general only points out the advantages and disadvantages from the customers point of view. There is still a lot of scope for detailing.

Douma et al. (2006) investigated the impact of foreign institutional investment on the performance of emerging market firms and found a positive effect of foreign ownership on firm performance. 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. However, neither of the above studies maintains a holistic approach to evaluating the influence of foreign investment on corporate performance.

Kathuria and Das (2005) put forth both in favour of and against the existence of complementarities between FDI & R&D investments. It rightly states that with the budget constraints, risk, uncertainty and a gestation lag, R&D takes a back seat with the domestic firms and it is certainly more convenient to buy technology from abroad through FDI which will help in competing with MNC affiliates. The Probit (Tobit) model is used for estimation and the analysis show that, in the post-liberalisation era, the relationship between FDI and domestic R&D has undergone a change, with substitution coming out strongly in the later period when the effects of FDI are deemed to have been absorbed. This implies that the country needs to rethink its FDI policy, aiming at a more target-oriented and selective approach.

Pal (2005), highlights the influence of FIIs on the movement of the sensex which had become apparent after the 2004 general elections in India when the sudden reversal of FII flows triggered a panic reaction which resulted in very high volatility in the Indian stock market. During this period, the sensex experienced the worst single-day decline in its history. In the three months between April and June 2004, the index declined by about 17 per cent. And it all started because of the selling pressure exerted by the FIIs after the elections and when they became less confident about the continuation of the reform process in India. FII control in the companies that constitute the sensex is very high. Data on the shareholding pattern show that the FIIs are currently more dominant non-promoter shareholders in most of the sensex companies and they also control more tradable shares of these companies than any other investor group. Given the controversy, the study aims to take a detailed look at the stock markets and the behaviour of different investor groups, especially the FIIs in India. The objective of the study is to investigate how the withdrawal of foreign portfolio capital in post-election phase affected stock prices and equity holding pattern in different sensex companies. The study helps us to understand dynamics of the stock market crash in the post election period.

The study of Ram Mohan (2005) reflects that the foreign institutional inventors have grown in importance in the entire economy. Flow of private capital through FIIs has in
recent years augmented foreign reserves in emerging markets. In India, over the past decade, FIIs have displaced domestic mutual funds in importance in the equity market. Their shareholding in the sensex companies is large enough for them to be able to move the market. The presence of FIIs have raised standards of disclosures and governance generally but their dominant presence in the market has given rise to concerns that they may be the source of excess volatility and could end up destabilizing market and the economy at large. The volatility portfolio inflows to India have been modest compared to other emerging markets. As domestic funds grow in size and pension funds enter the equity market and this would provide a measure of self-insurance against volatility occasioned by FIIs flows. The real problem caused by variations in FIIs inflows from year to year is not stock market volatility but difficulties posed in management of money supply and the exchange rate. The researcher has also concluded that while, in theory, the above situation is possible, FII behaviour in emerging markets does not point to FIIs existing markets easily. By and large, FII inflows into emerging markets, including India, have been positive, except in Malaysia and Indonesia at the time of the Asian crisis. The size of inflows could vary and this itself could lead to market volatility. But such variations are unlikely to be destabilizing in nature.

The study made by Wong et.al (2004) attempts to provide empirical evidence of the relationship between shareholding structure and firm depoliticization. Empirical investigation studies the decision-making power of local party committees in China’s listed firms and investigates how different types of share-holders affect (1) the level of the party control and (2) the performance implications of party control. Authors have obtained two major results. First, they found that the proportion of shares held by domestic individual shareholders is negatively related to the level of party control. As these shareholders are small shareholders who rarely participate in a firm’s decision-making, their result suggests that individual shareholders might be able to direct depoliticization effects via the exit channel. Second, legal person shares, although they do not contribute to direct depoliticization, are associated with reduced negative performance implications of a given level of party control. Two important implications can be derived from their study. First, share trading is not only a mechanism for ensuring the efficient allocation of capital in the stock market but can also serve as a low-cost means of reducing the level of political control over firms’ decision-making. Therefore, allowing full transferability of shares can provide shareholders with an effective mechanism for firm depoliticization. Second, any attempt to directly reduce the level of
political control is likely to be associated with high political costs as long as politicians and bureaucrats enjoy unchallengeable political authority. As a result, any strategy for proceeding with economic transition without introducing a pluralistic and democratic political system is likely to impede firm depoliticization.

Nam (2004) study examines the noise-traders model and explores the applicability of the model to the real-world financial markets, especially the 1997 Korean financial crises. The study focuses on foreign investors in an emerging stock market entering transactions based on information regarding fundamentals. One important policy implication for emerging market authorities derived from the study is that emerging markets should be more open to foreign investors to improve their informational efficiency as they are more likely to act as informed traders in these markets. Therefore the study has contributed a lot to the policy makers to understand the regime of FII participation in Indian stock markets and ultimately to the entry of Foreign investors into Indian corporate. Thus, the study is found to be very useful in the context of impact of FII on the Indian corporate sector.

Sundar (2004) gives an insight into the rush of foreign funds into the country. As per her observation, the subsequent rally in the bourses has created the impression that increased foreign investment could be the propelling force behind an active stock market. But a factor that went largely unnoticed was that by end-2003, foreigners had cornered close to 30 per cent of the equity in India's top 50 companies -the Nifty 50 which was just 32 per December 2002. Effectively, foreigners hold enough shares in Indian companies to influence the way the business is done. These shareholders may have a say in the decision-making and running of the company's day-to-day business. The staggered profile of foreign investors within this universe of stocks, however, limits the possibility of any such influence. The number of FIIs that now operate in the Indian market is over 500, against just a handful a year ago (Mention the year). Very few companies, barring MNCs and companies such as HDFC and ICICI, have a single foreign entity holding more than one per cent. For instance, the Government of Singapore holds more than five per cent in ICICI Bank. A handful of FIIs, such as Emerging Market Fund and Janus Worldwide, have acquired over one per cent stake in a number of companies over the past two years. Though these investments can influence the stock prices, they are not strategic investments and, hence, may not have an impact on strategic business decisions.
An analysis of the shareholding of the 50 companies represented by the Nifty index reveals that close to one-third of the corporate wealth represented by the market capitalisation of these companies is in foreign hands. The Nifty accounts for close to 70 per cent of the total market capitalization of the National Stock Exchange. Thus, a substantial part of the Indian corporate wealth is being controlled by foreign hands. Obviously, a large chunk of the increase in foreign holding is due to FII inflows and not due to any strategic investment. When the recently listed companies Maruti Udyog and Bharti Tele — both with substantial foreign strategic holdings — are included, the picture improves. The FII holdings in these stocks have increased by 3.7 percentage points to 13.7 per cent and the total foreign shareholding has risen by 6.7 percentage points. Is the high foreign presence due to the presence of MNCs operating out of India? Ironically, of the 26 companies where foreign holding is more than 25 per cent, 20 are promoted by Indians. The list includes some of the prominent family-run companies such as Reliance Industries, Hindalco and Grasim. Technology companies such as Satyam and Infosy, where FIIs hold a substantial stake too have a higher shareholding. Only six MNCs, on the other hand, have a foreign holding of more than 25 per cent. (Sundar (2004), “Foreign shareholdings in India Inc-Tugging at market strings” The Hindu Business Line –international edition, 11th April, 2004)

Kohli (2003) has focused on preliminary analysis of capital flows upon the domestic financial sector. It has been found that an inflow of foreign capital has a significant impact on domestic money supply and stock market growth, liquidity and volatility. The banking sector, however, remains relatively insulated due to policy responses of the central bank and barriers to direct inflows into the banking system. The study also spreads light exclusively on the domestic financial sector, i.e. the banking system and the capital market.

Rajarajan (2003) addresses issues of association between investors’ demographic and risk bearing capacity. The study characterizes the relationship between various demographic characteristics and the risk exposures of individual portfolios. The evidence from cross sectional data suggests that individuals' demographic characteristics do have a strong association with their risk bearing capacity. The study can be of use to the financial community in general and to financial product designers and marketers in particular. The study further confirms the relationship between age and income and the risk bearing capacity of investors and finds out the changes in risk adverse investors which create a demand for new financial products.
Pattnaik et al. (2003), in their study present the Indian experience of exchange rate management against the backdrop of international developments both at the theoretical and empirical levels. The authors opine that no single exchange rate regime is ultimate for all the countries and the regime that is appropriate for a particular country may change over time. The stated objective of India’s exchange rate policy is managing volatility with no determined exchange rate movements over a period. Against this background the authors have undertaken the empirical exercise which indicates that the monetary policy has been successful in ensuring orderly conditions in the foreign exchange market and containing the impact of exchange rate pass-through effect on domestic inflation. Moreover, they have described in the conclusion that reflecting the growing role of private capital flows during the 1990s, the exchange rate regime has undergone a significant shift. It is increasingly realized that no single exchange rate regime is most appropriate for all countries and the regime that is appropriate for a particular country may change over time.

Jha (2003) fine-points that much needs to be done to enhance FDI flows into India as it is more important to ensure that quality FDI comes in. Therefore there is a necessity of tariff reforms and privatization. The quantum of overwhelming concern should not be the quantum of FDI but a high rate of saving and investment.

Durham (2003) In contrast to the empirical literature’s focus on foreign direct investment (FDI), this study examines the effects of foreign portfolio investment (FPI) and “other” foreign investment (OFI) on economic growth using data on 88 countries from 1977 through 2000. Most measures suggest that FPI has no effect, and some results indicate that OFI has a negative impact on growth that is somewhat mitigated by initial financial and/or legal development. However, these results are questionable due to possible simultaneity bias. The empirical analyses also examine whether non-FDI foreign investment affects growth indirectly. FPI does not correlate positively with macroeconomic volatility, but the results indicate that the negative indirect effect of OFI through macroeconomic volatility comprises a substantial portion of the gross negative effect of OFI on growth.
Kumar (2002) has observed that opening up of the stock market to FIIs can act as a catalyst in improving efficiency of the Market. Mentioning that the FIIs operating in India are of different types as they comprise pension funds, mutual funds, trusts, asset management companies and others, the study has emphasized on their various dynamics which improves the efficiency of Indian markets. Ultimately the author has made an attempt to show the impact of FII on the changing environment of Indian markets which may be of great use for the present study.

Alam (2002) has emphasized on emerging patterns and trends in the inflows of foreign direct investment in India in response to liberalization initiated in 1991. The study reveals that although, India has opened its economy by a later decade as compared to the developing economies it still exhibits a lower openness and also pursues strict controls over these flows. The author has raised certain issues through the study that there is a need for advancing the innovative approach to the transfer of superior technology. The reform policies should aim at directing these flows towards export competitive units, which will help the country in enhancing export capabilities by using them as a model of export platform. In the arena of stiff competition among the developing countries for attracting foreign direct investment the liberalization of policies should be accompanied by effective negotiation and bargaining of multinational enterprises on behalf of large domestic market, vast pool of trained manpower, strong entrepreneurial professionals, a fairly well developed social system and physical infrastructure, a vibrant financial system including a rapidly growing capital market and diversified industrial base.

Tandon (2002) in his study shows the proposition that if a developing country (DC) seeks economic growth and welfare for its people, then the principal mechanism to do so is to try to attract foreign direct or private investment (FDI or FPI); and, furthermore, that in a globalized world, where capital is free to move where it will, the DC needs to offer competitive terms to attract FDI. The author tried to pretense that the FDI is not a sufficient factor for growth (for there are other factors that affect growth too) but is a necessary ingredient. Another qualification that is sometimes added is that FDI can have both negative as well as positive consequences, but "on balance" the positive benefits outweigh the negative, and hence the policy strategy should be to maximize the positive effects and minimize the negative ones. Article also explores defining *Private international capital flows,* particularly foreign direct investment, along with international financial
stability, are vital complements to national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development. A central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows, conducive to achieving national development priorities, to developing countries, particularly Africa, least developed countries, small island developing states, and land-locked developing countries, and also to countries with economies in transition. Author endeavor his thoughts by concluding that “to attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a transparent, stable and predictable investment climate, with proper contract enforcement and respect for property rights, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, avoidance of double taxation, corporate governance, accounting standards, and the promotion of a competitive environment. Other mechanisms, such as public/private partnerships and investment agreements, can be important. We emphasize the need for strengthened, adequately resourced technical assistance and productive capacity building programmes, as requested by recipients.”

Most of the developing nations consider FDI as a route for getting access to resources for economic development. It represents the transfer of a bundle of assets like capital, technology, access to export markets, skills and management techniques as well as modern environment management system from a developing country to a developed country (Arabi, 2005). FDI can play a significant role in the development process (UNCTAD, 1999). However the vital inputs for development are still perceived in terms of the key factors of production--land, labour, capital and technology--the context within which these are effectively utilized has changed dramatically. In particular, increasing knowledge content, the growing mobility of factors, strong competitive pressure to attract FDI and widespread liberalization, have all impacted on the nature of the development process. This, in turn, has required host developing countries to consider carefully investment in appropriate assets and infrastructure, the coordinated integration of a range
of policies (not just those directly affecting international investment), and the avoidance of expensive incentive competition to attract FDI (Enderwick, 2006). This has made multinational companies eager to enter into different markets through the route of FDI and thus take the advantage prevailing in the country. In this regards various theories and models have tried to model their relationship between multinational companies and the advantageous prevailing in the host country. It is widely recognized that the rationale for a company deciding to go international rests on the existence of market imperfections in the national market (Tatoglu & Glaister, 1998). These multinational companies (MNC) attempt to combine the advantages that they already possess in the foreign country with the advantages in the host country.

The study of Pethe and Karnik (2000) deals with the interrelationships between stock prices and important macro economic variables viz. exchange rate of rupee vis-à-vis the dollar, prime lending rate, narrow money supply, broad money supply and index of industrial production. With the help of econometric analysis such as unit root testing, co-integration and error-correction models the authors have analysed the macroeconomic changes in the financial sector which taking place since the early 1990s. On the basis of the findings the study suggests that there is a need to get organized and have a de facto legal framework in place, which would lead to greater efficiency and transparency in the trading activities. This would enhance investors’ confidence which is an essential aspect of stock market reforms and several institutional initiatives of SEBI. This apart, the study also focuses on effect of foreign capital on Indian economy.

Shah (1999) study has made an attempt to understand the functioning of capital markets in India from the perspective of the need to strengthen the financial sector. According to him a well functioning market is one which performs the information processing function effectively and thereby canalizes capital wisely. The author also addresses the Indian institutional realities and contemporary debates about public policy in connection with financial markets. Overall, the study focuses on the fundamentals to understand the functioning of Indian capital markets.

The above literature survey reveals that there is ample research done on the determinants of global investment flows and allocations. It is also found that a sizable amount of
research have focused on international portfolio flows and examined the relationship between portfolio flows and stock returns. Moreover a number of studies have analysed global and country level factors that influence investment allocations. There are also a number of empirical studies signifying firm level performance with the help of aggregate or average volume (turnover) or other variables from TFP concepts. However, the reviewed literature brings home the fact that still there is a possibility of exploring the area of impact assessment of foreign investment on corporate performance in India with a holistic approach. Such investigations may help the policy makers and corporate bodies to rationalize their decisions related to employment of foreign investment. Hence, the present research study addresses the issues related to the above gap area with a case of the BSE-30 companies in India.

1.3 Problem Definition

Foreign Investment is more strategic than financial in nature and function. The Indian corporate sector has shown aggressiveness in many fronts for collaborations and expansion through foreign funds, essentially FII & FDI. However, it is yet to be answered whether foreign capital is an asset or liability to the nation’s capital formation in general and Indian corporate in particular. The motives, dimensions and penetration of foreign companies and governments have not yet been proved in terms of a global booster for the corporates. The available literature and cases show a blurry picture of the impact and implication of foreign investment on nation’s capital formation as well as on the corporate. The Indian corporate, along with many long term strategies of growth, has also adopted a path for global expansion relying largely on foreign investments. The literature survey for the present study exposes critical areas of link between corporate growth and foreign investment. However, the major lacuna which has been poorly addressed is the nature and magnitude of impact of foreign investment on the specific facets of corporate performance covering both financial and non-financial. The present study tries to fill this gap but not in totality. It leaves the non-financial aspect and emphasizes on the financial side of the problem.
1.4 Research Objectives

The issue of studying foreign investment in the context of Indian Companies and Indian Capital Markets is very significant in the face of the present dynamic scenario of Indian economy. As regulatory authorities and Government policies towards foreign capital were relaxed it led to widening the Indian Capital Market to a large extent.

India has unlocked her potential of attracting foreign investor in full momentum in the year of 1992 and has allowed FDI and FII in the vast Indian corporate field. In September 1992, FII has started its investment in India which has become a landmark event since it has resulted in effectively globalizing its long term fund raising activities.

In the beginning FIIs were allowed to invest in pension funds, mutual funds, investment trusts, assets management companies, nominee companies and incorporated institutional portfolio managers who were permitted to invest directly in the Indian stock markets. Later the domain of FIIs were enlarged in the year of 1996-97 and included registered university funds, endowment, foundations, charitable trusts. Since then it has burgeoned so much that Foreign Investment Portfolio of which FII is a significant part has kept on growing relentlessly and continued its flow to India on a persistent basis.

The changes in the entire system of capital market brought a significant change in India like in the investor's investment patterns, company's growth and expansion, monetary and fiscal policies ultimately changing the economy.

Thus it is very significant in current situation to study the impact of changes of foreign investment on the financial, managerial and technological and social performance of the Indian corporate.

The present study is designed with the following broad objectives.

- To review the foreign investment policies of the government of India
To find out the trend of foreign investment vis-à-vis economic growth of India

To find out the Impact of foreign investment on financial performance of Indian companies considering the case studies of BSE-30

To find out the Impact of foreign investment on corporate performance with respect to managerial and technological efficiency of Indian companies considering the case of BSE-30

To find out the Impact of foreign investment on corporate performance with respect to R&D of Indian companies considering the case of BSE-30

To find out the Impact of foreign investment on corporate performance with respect to corporate social responsibility of Indian companies considering the case of BSE-30

1.5 Hypotheses

In the present study the following hypotheses are to be tested in order to achieve the set objectives.

<table>
<thead>
<tr>
<th>Hypothesis 1</th>
<th>Hypothesis 2</th>
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<tbody>
<tr>
<td>$H_{01}$: Foreign Investment has not shown significant growth in India over the last decade.</td>
<td>$H_{11}$: Foreign Investment has shown significant growth in India over the last decade.</td>
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<td>$H_{02}$: Foreign investment has not helped accelerate economic growth of India in the recent years.</td>
<td>$H_{12}$: Foreign investment has helped accelerate economic growth of India in the recent years.</td>
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<td>$H_{03}$: There is no significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. PAT.</td>
<td>$H_{13}$: There is significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. PAT.</td>
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<td>$H_{04}$ : There is no significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. value of shares.</td>
<td>$H_{14}$ : There is significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. value of shares.</td>
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<tr>
<td>$H_{05}$: There is no significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. EPS.</td>
<td>$H_{15}$: There is significant effect of foreign investment on financial performance of BSE-30 companies w.r.t. EPS.</td>
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<td>Hypothesis</td>
<td>Description</td>
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<tr>
<td>H06:</td>
<td>There is no significant effect of foreign investment on managerial efficiency w.r.t. return on investment (ROI) of BSE-30 companies.</td>
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<tr>
<td>H16:</td>
<td>There is significant effect of foreign investment on managerial efficiency w.r.t. return on investment (ROI) of BSE-30 companies.</td>
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<td>H07:</td>
<td>There is no significant effect of foreign investment on managerial efficiency w.r.t. return on equity (ROE) of BSE-30 companies.</td>
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<tr>
<td>H17:</td>
<td>There is significant effect of foreign investment on managerial efficiency w.r.t. return on equity (ROE) of BSE-30 companies.</td>
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<td>H08:</td>
<td>There is no significant effect of foreign investment on R&amp;D of BSE-30 companies.</td>
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<td>H18:</td>
<td>There is significant effect of foreign investment on R&amp;D of BSE-30 companies.</td>
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<td>H09:</td>
<td>There is no significant effect of foreign investment on technological efficiency of BSE-30 companies.</td>
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<td>H19:</td>
<td>There is significant effect of foreign investment on technological efficiency of BSE-30 companies.</td>
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<tr>
<td>H10:</td>
<td>There is no significant effect of foreign investment on CSR w.r.t. employee welfare cost BSE-30 companies.</td>
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<tr>
<td>H11:</td>
<td>There is significant effect of foreign investment on CSR w.r.t. employee welfare cost BSE-30 companies.</td>
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<td>H11:</td>
<td>There is no significant effect of foreign investment on CSR w.r.t. donation of BSE-30 companies.</td>
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<td>H111:</td>
<td>There is significant effect of foreign investment on CSR w.r.t. donation of BSE-30 companies.</td>
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<td>H12:</td>
<td>There is no significant effect of foreign investment on CSR w.r.t. village development and social welfare of BSE-30 companies.</td>
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<tr>
<td>H112:</td>
<td>There is significant effect of foreign investment on CSR w.r.t. village development and social welfare of BSE-30 companies.</td>
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1.6 Methodology

The study is based on secondary data. In order to prepare a background of the study data on foreign investment flow to India and indicators of economic growth have been collected from the leading secondary data sources such as the Reserve Bank of India Bulletin, Economic Survey of Government of India, Foreign Investment Promotion Council, Secretariat for Industrial Assistance Investment Promotion and Infrastructure Development Cell, journals, periodicals and websites. With a view to explaining the impact of foreign investment on corporate performance the BSE-30 companies have been
considered. For this purpose, data related to the various indicators defining foreign investment and corporate performance have been compiled from the annual reports of the BSE-30 companies. Simple regression technique has been used in order to test the hypotheses made in the study along with the use of simple descriptive statistics such as averages, simple growth rates, standard deviation, variance, co-variance etc. With a view to supporting explanation of observed trends, the study has also used extractions from various research articles based on adequate logic.

1.7 Chapterization Scheme

The present study is comprised of six chapters as briefed below.

Chapter – 1 introduces the study with a detailed literature survey, the research issue, objectives, hypotheses, database and methodology.

Chapter – 2 reviews the foreign investment policies of the government of India.

Chapter - 3 studies the trend of foreign investment vis-à-vis economic growth of India.

Chapter – 4 provides a Brief Spell of BSE-30 Companies

Chapter - 5 examines the impact of foreign investment on financial performance of Indian companies considering the case of BSE-30.

Chapter – 6 evaluates the impact of foreign investment on corporate performance with respect to managerial and technological efficiency of Indian companies considering the case of BSE-30.
Chapter – 7 evaluates the impact of foreign investment on corporate performance with respect to R&D of Indian companies considering the case of BSE-30.

Chapter – 8 evaluates the impact of foreign investment on corporate performance with respect to corporate social responsibility of Indian companies considering the case of BSE-30.

Chapter - 9 brings out the summary of the study, derives conclusions and thrusts on policy suggestions.