Abstract

Sustenance and growth for any country, big or small, developed or underdeveloped, in the current intensely interlinked and globalised world economy is highly Challenging. It is more challenging for countries like India which are populous and capital deficient, to gear up the growth drive without the fuel of foreign investment. Thus foreign investment is considered as one of the major sources of economic change for countries world over in general and for developing countries like India, in particular. 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 foreign investment is expected to have played a crucial role for the Indian corporate sector in fastening its growth, competitiveness and expansion to the global levels.

Developing countries generally have low income, slow capital accumulation, traditional technology and poor technical know-how on one side and huge human resources, extensively large pool of natural resources and unlimited scope of expansion on the other. This makes the role of foreign investment in such countries all the more vital and significant. Coupled with this, positive policy moves towards removing restrictions from inflow of foreign investment, structural adjustment programmes, creation and augmentation of world investors' confidence etc. have been observed to have created a much more congenial and result yielding environment for foreign investors. India, being a country falling, by and large, in the developing category with all most all the features demonstrated in her economy, is seen to make every possible effort to embrace as much investment as the foreign investors can put in. In this context, it is interesting to study the impact of investment flowing from abroad to the country's economy with a special eye on how it has impacted the Indian corporate sector.

The present study travels on the road in search of the prominent areas in the Indian corporate sector that would have been influenced by the inflow of foreign investment. The case of BSE-30 companies, considered as the representative of the corporate sector of the country, are analysed on the platform of foreign stake holding vis-à-vis their performance measured broadly in terms of financial performance, managerial efficiency, R&D activities ensuring technological ability and strength of living up to societal expectations.
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. 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 opportunities and challenges that the foreign sources of investment to the country pose for the Indian corporate sector are yet to be explored both in the short-run and in the long-run. The present study, indeed, is an attempt towards this end.

Thus, 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

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.

The major findings of the study may be summerized as follows:

1. Having seen the trend of foreign investment flow to the country and the various
policies determining its nature and extent the researcher attempted to examine the
impact of foreign stake holding in the BSE-30 companies on their financial
performance which was a major objective of the study. The first core chapter
started with introducing the various concepts defining financial performance and
then graduated to examining the impact of foreign investment flow on the
financial performance of the BSE-30 companies which represent the corporate
sector of India as considered in the study.

It was found that foreign investment influences PAT highly significantly (i.e., at
1% significance level) in as many as 8 companies out of BSE-30. Such companies
are Infosys Ltd, SBI Ltd, Bharti Airtel Ltd., TCS Ltd., NTPC Ltd., JSPL Ltd.,
Wipro ltd. and ACC LTD. In case of companies like Reliance Industries Ltd,
Tata Steel Ltd., HDFC Bank Ltd., LNT Ltd. and Hindalco Industries Ltd.
foreign investment influences PAT statistically significantly at 5% significance
level. Bhel Ltd. and Tata Power Ltd. have also witnessed an impact of foreign
investment on their PAT. In case of these two companies, the coefficient P-value
is statistically significant at 10% significance level. Overall, out of 30 companies
in the BSE category, foreign investment is observed to have influenced PAT in 15
companies.

2. With regard to whether market value to book value as a financial performance
indicator is influenced by foreign investment, the researcher arrived at the
following conclusions. Out of BSE-30, in 12 firms foreign shareholding exhibited
elevated impact on the market to book value of its shares. These firms are also
affirmative to exports and imports; introduce new products and technologies; and
take advantage of information technology in trade. In as many as 5 companies, foreign investment significantly influences market to book value at 1% significance level. Such companies are ONGC Ltd, Tata Motors Ltd, Tata Power Ltd., JSPL Ltd. and Sterlite Industries Ltd. In another 5 companies foreign investment is seen to influence the said variables at 5% significance level. Such companies include Hindalco Industries Ltd, HDFC, TCS Ltd., Infosys Ltd. and ICICI Bank Ltd. In 2 companies viz. MNM Ltd. and HUL the influence of foreign investment is found significant at 10% significance level.

3. EPS was also considered as a prime indicator of financial performance in the study. While examining the impact of foreign investment on EPS in the BSE-30 companies the researcher came up with the following interesting results. In companies like SBI Ltd, Reliance Communication Ltd, ACC Ltd., NTPC Ltd., Tata Steel Ltd. and ITC Ltd. foreign investment is found to influence EPS significantly at 1% significance level. Impact of foreign investment on EPS in companies such as HDFC Bank Ltd., DLF Ltd. and Hindalco Industries Ltd. is statistically significant at 5% level and that in companies such as Tata Power Ltd., Infosys Ltd. and Wipro Ltd., at 10% level. Overall, out of 30 companies under consideration, foreign investment has a significant influence on EPS in 12 companies. This means that in such companies, foreign investment plays a crucial role in raising the profit performance along with strengthening the confidence of foreign private investors in the way of their investment in India. However, in certain companies EPS is not found to have any correlation with foreign investment.

4. With regard to the influence of foreign investment on managerial efficiency the following interesting results were noted. It was seen that in two companies viz. Bharti Airtel Ltd. and TCS Ltd., foreign investment has a significant impact on their ROI i.e. at 1%. In companies such as Tata Motors Ltd., ICICI Bank Ltd., Infosys Ltd. and Bhel Ltd., the influence of foreign investment on their ROI is statistically significant at 5% level of significance. However, only two companies (MNM Ltd. and HUL) are found to exhibit the magnitude of influence of foreign investment on ROI at a low level i.e at 10% significance level. Apparently, eight out of thirty companies under analysis have been positively influenced by foreign investment in terms of ROI leaving the rest 22 companies with no significant
bearing of foreign investment over the return on investment. The observation is based on many reasons varying from company to company. However, the principal reasons in this regard are poor governance, lack of seriousness towards utilizing foreign investment for growth, government policy constraints etc.

5. Theoretically, foreign investment in a company should influence its return on equity. We tried to see whether in BSE-30 companies, there prevails any impact of foreign stake holding on their ROE over last ten years. It was found in case of eight companies out of 30, foreign investment has a significant impact on ROE with ICICI Bank Ltd. and Tata Motors Ltd demonstrating influence of foreign investment on ROE at 1% significance level. Out of the rest, foreign investment influences ROE at a statistically significant level of 5% in companies such as TCS Ltd., Infosys Ltd. and HDFC. Companies like SBI Ltd., HUL and Reliance Infrastructure Ltd. experience statistically significant impact of foreign investment on their ROE at 10% significance level. Hence, it may be said that foreign investment flow to the Indian companies represented by the BSE-30 has exposed a significant influence on their ROE. However, the same is not found in all the companies. In more than one third of the BSE-30 companies foreign investment does not seem to have influenced their return on equity during the study period for some reason or the other.

6. It is a common consensus that investment of any kind is bound to influence the base of technology through augmentation of research and development. For a progressive open economy, therefore, it may be argued that investment flowing from the rest of the world critically plays a role on moulding and gearing up the magnitude of technology in the corporate sector of the country. This gave a clue to the researcher to see whether foreign stake holding has influenced the R&D activities of the Indian companies i.e., the BSE-30 companies under consideration of the study. As per the findings, twelve companies out of 30, foreign investment has a significant impact on R & D. Five companies viz. DLF Ltd, ONGC Ltd, HUL, Infosys Ltd. and ACC Ltd. exhibit foreign investment influencing R & D at 1% significance level. Foreign investment appears to influence R & D at a statistically significant level of 5% in two companies such as Bhel Ltd. and Reliance Industries Ltd. In companies like JSPL Ltd, NTPC Ltd., LNT Ltd., Maruti Suzuki Ltd and ITC Ltd the influence of foreign investment on R&D is
statistically significant at 10% significance level. However, all is not well with the Indian corporate with regard to foreign investment and R&D relationship. In as many as 18 companies the impact of foreign stake holding is not statistically significant at all. The companies where foreign stake holding does have any impact on their R&D are Bharti Airtel Ltd., Cipla Ltd., HDFC Bank Ltd., HDFC, Hero Honda Ltd., Hindalco Industries Ltd., ICICI Bank Ltd., JP Associates Ltd., MNM Ltd., Reliance Communication Ltd., Reliance Infrastructure Ltd., SBI Ltd., Sterlite Industries Ltd., Tata Motors Ltd., Tata Power Ltd., Tata Steel Ltd., TCS Ltd. and Wipro Ltd.

7. Corporate social responsibility functions for corporate, in the prevailing competitive business scenario, is almost inevitable for sustenance and growth. For large and growing economies, both domestic and international sources of capital help in undertaking social responsibility. However, hardly any study lies in correlating investment from abroad with the social responsible functions of corporate. In the present study, measuring the impact of foreign investment on social responsibility has been a major focus. As mentioned earlier, considering the case of BSE-30 companies as the representative of Indian corporate sector, the researcher tried to evaluate, to the extent possible, the impact of foreign stake holding on social responsibility of the Indian giant companies by defining social responsibility with the help of two major indicators viz. Employee Welfare Cost and Donations. The following broad results have been observed while regression foreign stake holding with EWC and Donations individually.

With regard to employee welfare cost as a measure of social responsibility, only six companies out of 30 depict an influence of foreign investment whereas in the rest 24 companies there is no effect of foreign stake holding on the activities undertaken for employee welfare and social development. The companies witnessing a significant influence of foreign investment on employee welfare cost: JSPL Ltd., HUL, TCS Ltd., J.P Associates Ltd., LNT Ltd. and HDFC. Even though the number companies showing a significant influence of foreign investment on their EWC is small, yet, it is noteworthy that foreign investment influences the social responsibility of Indian companies. This suggests that the Indian corporate giants, the process of their wealth maximization objective, do
not ignore their employees’ interest and growth. This again clarifies that the Indian companies also understand the fact that drawing investment from abroad for profit maximization only is not sustainable; a part of its benefit must be shared with the employees in order to keep them motivated for greater growth for a longer period of time.

The second major parameter to explain social responsibility, as mentioned earlier, is donation made by the company for community and social development. While trying to find out whether foreign investment in the BSE-30 companies of India have any influence on their donation making behavior, it was found that in a number of companies the result was discouraging. This means in such companies foreign investment could not make much impact on initiating those companies to spare specific budget of an amount for donation or charity activities. Such companies are ACC LTD, Cipla Ltd, DLF Ltd, HDFC Bank Ltd, HDFC, Hindalco Industries Ltd, ICICI Bank Ltd, Infosys Ltd, JP Associates Ltd, LNT Ltd, Maruti Suzuki Ltd, MNM Ltd, Reliance Communication Ltd, Reliance Infrastructure Ltd, SBI Ltd, Sterlite Industries Ltd, Tata Motors Ltd, Tata Power Ltd, TCS Ltd, Wipro Ltd, HUL, NTPC Ltd and Tata Steel Ltd. The result may suggest that there is a distant relationship between foreign investment and the donation making nature of the companies. Moreover, donation as a social responsibility is, by and large, a managerial decision issue rather than an investment driven activity.

So far as village development and social welfare activities influencing social responsibility is concerned, we could not obtain any quantitative data and hence, failed to find out any scientific base of foreign stake holding influencing such an activity of the BSE-30 companies. However, a rigorous study of the annual reports of such companies brought home a plethora of qualitative facts using and analysing which we came to a conclusion that, directly or indirectly, the increasing sensitiveness of the companies towards community development is influenced by their investment base wherein investment from abroad would have also been playing a major role.

Key Words: Foreign Investment, financial performance, managerial efficiency, R&D activities