CHAPTER 2
REVIEW OF LITERATURE

2.1 INTRODUCTION

Stock market development has become a priority endeavor of many countries, particularly, where there are more capital requirements by companies from global markets either by FDI or FII. Foreign investment in any country is very much affected by the level of economic development in that country, companies’ financial performance and good corporate governance. The favorable foreign investment scenario in India with respect to all above mentioned factors has always attracted many cross-country mergers, acquisitions, or any other kind of foreign investment (Petkova, 2012).

The substantial amount of institutional investment from the foreign countries makes it important to investigate the various factors pushing such investment. It has been observed that institutional investors follow ‘prudent man’ policy. Accordingly, they prefer big-sized companies, with less leverage, less information asymmetry, low BM ratio, high liquidity and stocks with more governance quality (Badrinath et al., 1989; Del Guercio, 1996; Gillan & Starks, 2000; Dahlquist & Robertsson, 2001). Further, growth of any country’s capital market also boost up foreign investment therein, while the companies with weak corporate governance quality has been found to face low level of investment (Chan et al., 2005; Giannetti & Simonov, 2006; Kho et al., 2009; Leuz et al., 2009). Overall, these studies have shown investment preferences of foreign investors based on macro-economic variables, companies’ financial performance, and corporate governance, on standalone basis. However, the studies based on consideration of all these determinants together as a function of FII in India, are scant. Moreover, Indian studies have primarily been devoted to examine the relationship between FII and stock market proxies (e.g., Trivedi & Nair, 2005; Shukla et al., 2011; Johri et al., 2012; Ramaratnam et al., 2013; Kulshrestha, 2014; Kumar, 2014). The present study makes a genuine effort to cover these research gaps that have been identified in previous studies. Particularly, it covers the studies showing the trend and pattern of FII in India, impact of macro-economic variables, firm performance, and corporate governance variables on FII. The chapter concludes with the methodological observations from the previous studies, including
identification of substantive findings of previous studies and research gaps. Present chapter has been divided into four sections; Section 2.2 presents the literature review on the trend and pattern of FII in India and macro-economic variables, firm performance characteristics and corporate governance variables as determinants of FII. The concluding sections; Sections 2.3 and 2.4 shows methodological observations based on literature review and summary of the chapter, respectively.

2.2 LITERATURE REVIEW

Section 2.2 of this chapter provides literature review on various factors affecting the investment decision of FIIs. It has been divided into four sub-sections; Section 2.2.1 discusses the studies showing the trend and pattern of FII in India. Section 2.2.2 covers the studies showing the impact of macro-economic variables on FII. Sections 2.2.3 and 2.2.4 incorporate literature review on firm performance characteristics and corporate governance variables (CG), respectively, as determinants of FII.

2.2.1 Literature Review on Trend and Pattern of FII in India

This section of the chapter covers studies based on trend and pattern of FII in India during the last few years. In a study by Kulshrestha (2014) results of trend analysis showed a huge increase in the net investment of FII from ₹ 9,933.40 crores in the year 2000-2001 to ₹ 93,725.50 crores in the year 2011-2012 and those of mutual funds rose significantly from ₹ 2,256.51 crores in 2000-2001 to ₹ 333,462.9 crores in the financial year 2011-2012. Further, it was also found that total registered FIIs have increased from 527 in 2000-01 to 1,765 in 2011-12. The increasing trend of FII was witnessed for all these years, even during the financial crisis in 2008-09, implying that India has always been an attractive destination for foreign investors.

Singh (2009) also conducted a study to assess the composition, regulations, issues and policy options of foreign capital flows in India. Findings of the study showed that net capital inflows have raised up from US $ 7.1 billion in 1990-91 to US $ 108.0 billion in 2007-08 thereby, making India as attractive investment destination. Saravanakrishnan (2012) conducted a trend analysis for the financial period 2006 to 2011 and found a growing trend of FII in India, particularly during the period 2006-2009, while a negative trend of FII was evident during 2008-09 due to the global financial crisis. Further, FII was found to be more influenced by stock market returns and economic factors of the country. Similarly, Sharma (2014) in a trend analysis of
Net Portfolio Investment (PI) observed their remarkable growth during the financial years 2000-01 to 2012-13. However, similar to the earlier studies, the financial year 2008-09 showed a negative PI, while there was a downfall in foreign investment during 2002-03 and 2011-12. These results supported the volatile nature of foreign investments and further supported the fact that such investments are considered as hot investments which strongly influences the total inflows into the Indian economy.

It has been empirically proved that the trend of FII in a country is highly influenced by firms’ financial performance, quality of CG standards, and macro-economic variables (Badrinath et al., 1989; Del Guercio, 1996; Dahlquist & Robertsson, 2001; Chan et al., 2005; Giannetti & Simonov, 2006; Kho et al., 2009; Leuz et al., 2009). The favorable investment climate in India relating to above mentioned factors over the past many years has attracted many international mergers, acquisitions, and foreign investment (Petkova, 2012) and it cannot be denied that over time, the FII has made a significant contribution to the Indian stock market (Kulshrestha, 2014).

2.2.2 Literature Review on the Impact of Macro-economic Variables on FII

This section of the chapter has covered studies which have analyzed the impact of macro-economic variables on FII. It has been empirically proved that growth of country’s capital market makes it an attractive investment destination and paves the way for lucrative sources of finance from foreign investors all over the world. Further, foreign investors are attracted towards emerging countries for obtaining the benefits of diversification and growth opportunities available therein (Rai & Bhanumurthy, 2004; Aggarwal et al., 2005). The Indian market has also witnessed a growing trend due to globalization. This growth is attributed to the institutional investors who want to earn enormous returns. Consequently, India has steadily become a crucial and preferred place for foreign capital (Chan et al., 2005). In 2004-2005, portfolio investments in India were about 62 percent of total foreign investment in the country, which was about 1.29 percent of GDP, and out of it, FII accounted for about 97.5 percent of the investment. Further, as per the financial report of NSDL, 2017, FII have steadily grown from about ₹ 2,600 crores in 1992-93 to ₹ 277,461 crores in 2014-15 (NSDL, 2017).

Rai & Bhanumurthy (2004) in a study based on data from January 1994 to November 2004 observed a negative relationship of FII with inflation in India. It was
observed that increase in inflation represented by Wholesale Price Index (WPI) caused FII to withdraw their investments from India and invest in other countries. Similarly, Dandapani & Lawerence (2013), while studying the FII for over 96 months from January 2002 to December 2009, found a negative association of FII with inflation in India, and positive relationship with Index of Industrial Production (IIP) which was used as the proxy of the strength of an Indian economy.

Saraogi (2008) conducted a study on analysing the factors affecting FII in India. USA market returns, inflation and exchange rate of India were found to be negatively influencing foreign investments while BSE market returns were observed to be boosting up the FII. Similarly, Kaur & Dhillon (2010) conducted a study on identifying the determinants of FII based on a data from April, 1995 to December 2006. Results showed that in a short-run, market capitalization and stock market turnover had a significantly positive influence on FII while in long-run, stock market return had an affirmative impact. Also, IIP and USA inflation (PPI) had an affirmative impact on FII while WPI showed considerably a negative influence on FII. Similar results were obtained by Kumar (2011).

Srinivasan & Kalaivani (2013) by applying ARDL technique on quarterly data from January, 2004 to December 2011, concluded that Exchange rate negatively influenced FII. Indian equity market returns showed a negative influence on foreign investment in short-run while an affirmative one in long-run. Thus, FIIs tend to adopt negative and positive feedback trading strategies in short and long-run, respectively. Also, WPI was found to have a negative impact on FII. Mohanasundaram et al., (2015) based on data from April, 2001 to March, 2014, concluded that PPI of USA significantly influenced the FII in a positive way while interest rate represented by US 3 month T- bill (USTBR ) had a significantly negative impact on FII in India.

Dhingra et al. (2016) examined domestic and foreign factors from January, 2000 to August, 2013 for exploring the determinants of FII by applying ARDL approach. It was observed that market return, market capitalisation, exchange rate, S&P 500 and PPI of USA have emerged as the significant determinants of FII. Similarly, Bhasin & Khandelwal (2014) by using monthly data for the period September, 1993 to July, 2013, found that foreign exchange reserves had a positive impact while exchange rate had a negative impact on FII.
Overall, previous studies have revealed that IIP, Indian stock market return, market capitalisation, stock market turnover, foreign reserves, PPI representing inflation of USA have a significantly positive influence on FII, while, Exchange rate, WPI, S&P 500, US T-bill representing interest rate, have been found to be negatively influencing the FII (e.g., Rai & Bhanumurthy, 2004; Chan et al., 2005; Saraogi, 2008; Kaur & Dhillon, 2010; Dandapani & Lawerence, 2013; Srinivasan & Kalaivani, 2013; Bhasin & Khandelwal, 2014; Mohanasundaram, et al., 2015; Dhingra et al., 2016).

2.2.3 Literature Review on the Impact of Firm Performance on FII

This section provides literature review on studies showing the impact of firm performance variables on FII. Some studies argued that FIIs (foreign institutional investors) prefer fast growing emerging markets and consider country characteristics more while taking investment decisions than firm level governance (Frenkel & Menkhoff, 2004; Doidge et al., 2005; Stulz, 2005). However, Ferreira & Matos (2006) observed that FIIs choice of firms for investment is based more on firm level characteristics than country level by applying panel regression on dataset from 27 countries. FIIs were found to base their investment decision by analyzing the firm related factors, particularly, in case of countries with poor investor protection and tend to prefer companies with certain attributes based on their firm performance. Hence, analysis of firm performance characteristics to understand the variations in FII has assumed importance. Patibandla (2002) by taking data from 1989-1999, found foreign investment to be positively associated with firm performance. Lin & Shiu (2003) indicated that foreign investors avoid high debt companies and prefer companies with bigger size. Similar results were supported by Jiang & Kim (2004) and Al-Najjar (2010) wherein, a positive association was observed between foreign ownership and firm size. Al-Najjar (2010) in a study on Jordanian institutional investors found FIIs investment decisions were based on firms’ capital structure, its size, profitability, risk, future growth prospects and liquidity. Similarly, Haldar & Rao (2012) in an Indian study on 500 industrial firms observed that foreign investment is extensively influenced by company’s financial factors and CG practices.

Prior studies observed a positive association of firm size with amount of FII. Some studies have empirically proved that FIIs prefer large-sized firms as they are less subject to financial distress and bankruptcy risk. This preference is based on the fact that such firms have the required financial resources and are able to minimize the
risk of their stock investment through diversification strategies (O’Brien & Bhushan, 1990; Tong & Ning, 2004). Falkenstein (1996) observed that USA mutual funds have more holdings in big-sized companies as compared to the small ones. Huberman (1999) and Dahlquist & Robertsson (2001) agreed that FIIs prefer well-known firms with which they and market is more familiar, i.e., considerably a positive association of firm size with investor ownership. These results are also consistent with previous studies on USA firms (Falkenstein, 1996; Benett et al., 2003).

Book-to-Market Ratio (BM) has been used as a valuation measure of the firm for differentiation between value and growth stocks. Firms with low BM are considered as growth firms while with higher ratios as value firms. Considering the long-term benefits of investment in a company, FIIs prefer growth firms with low BM (Lakonishok et al., 1994; Dahlquist & Robertsson, 2001).

Turnover (TO) computes the market liquidity of company’s shares. Liquid stocks are characterized by superior information flows, which enhances transparency and gain the trust of institutional investors (Almazan et al., 2005). Gompers & Metrick (2001) used firm-size, share-prices and TO as determinants of liquidity and reported a positive association of TO with FII.

Dahlquist & Robertsson (2001) found that foreign investors in Japan favoured big-sized firms with low leverage. According to Dahlquist & Robertsson (2001) and Liljeblom et al. (2001), FIIs invest in low dividend paying stocks and have lesser holdings with high dividend yields as they tend to avoid being fallen in the high tax brackets. Liljeblom et al. (2001) observed an optimistic association of fall in the ex-dividend day price with the degree of foreign investment. Thereby, suggesting that FIIs are reluctant to invest in shares with high dividend yields to avoid the tax burden on accumulated wealth.

Aggarwal et al. (2005) found that ROE represent company’s profitability, and institutional investors consider it while taking investment decision and are attracted towards the companies with high ROE. Managen & Tauringana (2007) also observed that ROE was found to be positively influencing the investment decision of FIIs. Ueda (2007) described that institutional investors look for more disclosure and accountability in the form of performance and CG, have used ROE, ROA and Tobins’ Q as measure of firm performance. Jayesh (2001) and Mizuno & Tabner (2009) have
also used ROE as proxy of company performance in their studies, and found it to be positively associated with investment decision of FIIs.

Previous studies show that leverage has also been found to influence the investment choices of FII. Jensen & Meckling (1976) observed that debt lowers down a company’s agency costs due to increased monitoring by debt holders. If institutional ownership acts as a monitoring mechanism, there would be a negative relationship of leverage with institutional ownership due to substitution effect. Bathala et al. (1994) found a negative association of debt levels with institutional ownership. Kang & Stulz (1997) conducted a study on Japan from 1975 to 1991 and observed that foreign investors preferred big-sized manufacturing companies with superior performance, low unsystematic risk, and low leverage. In addition, Dahlquist & Robertsson (2001) observed that leverage is a measure of company’s long-term financial distress and foreign investors being risk averse avoid or feel less attracted towards firms with high leverage.

Institutional investors prefer investment in companies with more cash, since they are perceived to be more financially sound than their counter-parts (Dahlquist & Robertsson, 2001). Navissi & Naiker (2006) observed a positive relationship of institutional investment with a company’s operating cash flow returns. Further, firms with large sales abroad, i.e., which have a large export rate, are more familiar to foreign investors. Such export rate has been taken up as a proxy for the visibility of a company in foreign markets and has been used as one of the criteria considered by foreign investors while taking investment decision (Dahlquist & Robertsson, 2001; Lakshmi, 2010). Covirg et al. (2006) studied investment priorities of domestic and foreign fund managers from eleven developed countries and found that as foreign investors have less information as compared to domestic counterparts, hence they consider size of a firm, its foreign sales while taking investment decision.

2.2.4 Literature Review on the Impact of Corporate Governance on FII

This section of the chapter presents the review of studies showing the impact of CG on FII. Corporate governance is one of the crucial systems of control mechanisms that ensure transparency, fairness, and accountability by companies, thereby increases investors’ confidence on companies’ affairs (Shleifer & Vishny, 1997). It has been empirically proved that FIIs consider both firm performance measures and eminent
governance practices prevailing among the companies while taking investment decisions. One of the reasons for this could be that better governance practices ultimately results into increase in firm value which thereby attracts more foreign investment (Gompers et al., 2003; Giannetti & Simonov, 2006). According to Frost et al. (2006) and Donaldson (2003) good corporate governance results in better disclosures in reporting practices by companies which results in more investors’ confidence and liquidity in the form of foreign investment. Gompers et al. (2003) found that better-governed firms have shown higher firm values, better operating performance, and comparatively less failures than their counter-parts, i.e., less governed firms.

Aggarwal et al. (2005) examined equity holdings of 576 USA funds in emerging markets and empirically proved that firms with better accounting and corporate governance practices have attracted more foreign investment. Further, it was observed that investors preferred well-governed companies particularly more in case of countries with weaker investor protection. Aggarwal et al. (2007) by applying linear regression on 5296 firms for the financial year ended in 2004-05 found that firm and country-level governance indicators complement each other and investments based on firm performance has provided higher returns in countries with better investor protection. Similarly, Ferreira & Matos (2007) observed that domestic and foreign investors strongly preferred companies with strong governance indicators. Leuz et al. (2009) investigated total holdings of USA investors in 29 countries and found that they have less investment in companies with high degree of insider ownership which could create governance issues.

It has also been observed that foreign investors consider stocks with less information asymmetry. Leuz et al. (2009) argued that information asymmetry affects foreign investors in two ways. Firstly, it increases the risk factor for foreign investors to assess the true value of a firm, thereby; they invest in firms associated with less information asymmetry. Secondly, foreign investors find it difficult to adequately assess the true extent of expropriation activities of holding companies which causes higher monitoring costs. These costs associated with information asymmetry are more pronounced in poorly governed firms that engage more often in misappropriation of funds and earnings management. Overall, to lower down the information acquisition
cost and monitoring the firm’s affairs, foreign investors prefer companies with stronger governance systems.

Bhattacharya & Rao (2005) in a study on CG as determinants of FII based on 134 firms for the period from 2000 to 2003 found that FIIs help in reducing agency costs by encouraging more CG practices. Li (2005) observed that in case of poor CG, foreign investors opted for FDI over FII with a belief that FDI is better sheltered by private means. But the reputed companies already known for their best reporting and disclosure practices can easily attract more of foreign investment in the form of FII. One of the possible reasons for this could be that since FIIs usually have large stake in the company, it has to fulfil their expectations by leaving behind their agency problems, which improves their governance structure and in turn improves performance of the company. So, corporate governance influences very much the mode of investment by the foreign investors.

Bokpin & Isshaq (2009) documented that superior disclosure practices guarantee higher transparency which makes a company more striking for foreign funds, which was proved empirically in their study as foreign investments was found to have a strong statistical relation with level of firm disclosure. Leuz et al. (2009) conducted a study on twenty nine countries by using 4,409 firm-observations and found that firms with poor governance structure are considered to be more risky by the foreign investors in context of information and monitoring costs, thus they avoid investing in such firms. Vo (2010) by employing data from Vietnam stock markets found that FIIs react positively to companies having less information irregularity while avoid ones with dominant holdings. Kim et al. (2010) tested the impact of CG practices on foreign investors and found that foreign investment is negatively related with a company’s ownership concentration however positively related with company’s efforts for better corporate governance. Haldar & Rao (2012) conducted a study in India on 500 industrial firms, which indicated that foreign investment is considerably affected by financial and governance factors of a company.

The typical problem of corporate governance lies within the separation of ownership and control, i.e., the agency cost arising due to departure of interest between the owners and company’s managers (Jensen & Meckling, 1976). Chairman as an independent board member helps in reducing power misuse and enables the board to employ their self-governing judgement over CEO’s decision (Boyd, 1995).
Millstein & MacAvoy (1998) found that companies (USA listed) having active independent boards performed better as compared to companies having passive and non-independent boards. Oxelheim & Randøy (2003) also contended that the presence of foreign members in BODs can develop corporate governance in countries like Norway and Sweden. Also autonomous director as the board chairman ensures better transparency (Raheja, 2005).

Ferreira & Laux (2007) conducted a study on 1248 firms from 1990 to 2001 and found that firms with better CG practices have superior information flows, and reduced information acquisition and monitoring costs. Strong and effective boards reduce monitoring costs, and independent auditors and better accounting disclosure practices reduce information asymmetry, by providing transparent, timely, and reliable financial statements.

Mangena & Tauringana (2007) found positive relationship of foreign ownership with the audit committee independence and the percent of non-executive directors in the board, by conducting a study on companies listed at Zimbabwe Stock Exchange. Bowman & Min (2012) conducted a study to examine the impact of independent boards in Korean companies found that foreign investors placed substantial importance to the appointment of independent directors.

There have been studies that have shown that independent directors lower down the chances of fraud and earnings management (Dechow et al., 1996; Beasley et al., 2000; Klein, 2002; Ajinkya et al., 2005). Board independence has been found to be considerably associated to firm value and it has also been observed that the board should be controlled by more than 50 percent of independent directors (Klein, 2002; Ajinkya et al., 2005). Beasley et al. (2000) found that companies involved in financial statement fraud have a lower number of independent directors as compared to innocent firms. Klein (2002) and Peasnell et al. (2000) showed that the presence of independent board significantly reduces the problem of earnings management.

Hermalin & Weisbach, (1988) and Borokhovich et al. (1996) found that the board with independent directors are expected to act more in shareholders' interests, and improve company’s performance by better monitoring of management. Cai & Warnock (2005) found that companies facing larger asymmetric information trust less on board monitoring. Since foreign investors favour firms with high information
symmetry, it is argued that they invest more in those with strong and effective board. Aggarwal et al. (2007), similar to the study results of Dahya et al. (2006) found that board independence is positively associated to firm value in countries with poor investor protection when they have controlling shareholders. Coles et al. (2008) suggested that larger boards tend to have more outside directors, hence numerous studies suggested that non-executive directors have been found to have a positive effect on company’s working and that the boards controlled by non-executive directors are expected to ensure better management and transparency (Hermalin & Weisbach, 1988; Borokhovich et al., 1996). McCahery et al. (2010) found in his study that 86 percent of the investors considered board independence as an important governance measure while making investment decisions in any company.

Board composition strongly influences company’s financial performance. There has been mixed results with respect to the board size impact on corporate performance and thereby its extent of attractiveness for foreign investors as one of the corporate governance variables. According to Institutional Shareholder Services (2006), the optimum board size consists of more than five members with a maximum limit of sixteen. Jensen (1986) suggested that smaller boards improve communication, cohesiveness, co-ordination, and ensure effective monitoring of company’s affairs. There has been number of studies which have empirically proved that the smaller board size results in higher company value (Yermack, 1996; Eisenberg et al., 1998). Yermack (1996), Hussain (2001) and Reddy et al. (2008) found an opposite association of board size with firm performance. Board size has several implications for board independence (Muth & Donaldson, 1998). A smaller board can be easily dominated by the CEO, whereas in larger board, he would need more time and effort to build consensus thus larger board size ensures more board independence (Shaw, 1981). Chaganti et al. (1985) compared board size between disastrous and flourishing firms and revealed that flourishing firms tend to have bigger boards.

There have been Indian studies which have proved that the board size is a well-built controlling instrument against managerial diplomacy and frauds (Kumari & Pattanayak, 2014). Bowman & Min (2012) in a study based in Korea observed that foreign investors placed substantial importance to the appointment of independent directors. Hence, a larger board would be preferable for attracting more foreign investment.
Chairman/CEO separation is defined as separation of these two positions or presence of a lead director. Separation of these two positions adds to company’s performance as the chances to violate the authority by the CEO are lower in comparison to the one holding dual leadership status (Aggarwal et al., 2007).

Audit committee size positively influences financial reporting quality and helps in ensuring proper supervision of financial reporting, adequate external audit and acts as an internal joystick (Kalblers & Forgarty, 1993). DeZoort & Salterio (2001) argued that the audit committee’s proficiency increases the possibility of detecting and correcting the substantial misstatements in time and communicating the same to management. Previous studies (McMullen, 1996; Carcello & Neal, 2000) have proved that companies with trustworthy financial information are expected to have autonomous audit committees which ensure that management will not indulge in improper ways of financial reporting. Braiotta (1999) observed that audit committee size is based on its responsibilities, rights, and board size. Carcello & Neal (2000) advised that audit committees by effectual presentation of their monitoring task can ensure the quality of financial reporting and company responsibility. Klein (2002) suggested that independent audit committee is expected to reduce the chances of earnings management, thereby improving transparency. Felo et al. (2003) found that audit committees’ expertise and size positively influences the financial reporting quality. They also stated that cost of capital is negatively associated with reporting quality. NZSC (2004) recommended that audit committees are better able to administer the audit of financial statements.

Mangena & Tauringana (2007) observed a positive relationship of foreign ownership with the subsistence of audit committee. Reddy et al. (2010) observed that audit committees in public sector companies helps in lowering down the agency cost. Audit committee plays a crucial role in reducing information asymmetry between managers and owners as well as a powerful mean for defending investors’ interest (McMullen, 1996; McDaniel et al., 2002). Audit committee is considered independent if it comprises of independent outside auditors. Audit committee independence is associated with higher value of a firm thereby attracting more of foreign investments (Aggarwal et al., 2007).

Brown & Caylor (2006) by taking 51 corporate governance provisions based on CG Index, found that well governed firms generate better financial results. Leuz et
by analyzing 4,409 firms from 29 countries, found that FIIs preferred to invest less in firms facing governance issues. Rather, they preferred well governed firms with less information irregularity and well-built cash balance.

According to Companies Act (2013) promoter means a person controlling the company’s affairs, and advising the directors. Previous studies have shown that promoter’s shareholdings negatively influence FII (Lakshmi, 2010). Investors feel insecure where company’s boards are primarily managed by promoters with increase in information asymmetry, thereby, attracts lesser foreign investment (Yeh & Woidtke, 2005; Zuobao et al., 2005; Kim et al., 2010; Byun et al., 2011). Similar results have been evident in case of Indian companies with high promoter shareholdings (Singla et al., 2014). On the contrary, there have been researches which prove that promoter holdings act in legally protecting the rights of minorities especially in countries with weak investor protection (Lskavyan & Spatareanu, 2011).

Thus, the extant literature review has empirically proved that FIIs are influenced not only by firm performance measures but also by corporate governance mechanism which ensures that due measures have been taken on the part of a company for safeguarding the interest of investors. FIIs being less in number and have information disadvantage with respect to companies of host country tend to rely more on their governance mechanism (La Porta, et al., 1999; Klapper & Love, 2004; Das, 2014). As evident by the review of previous studies, board independence, audit committee size, and its’ independence have positively attracted FIIs, while, board size, dual role played by directors, and promoter shareholdings negatively influences the FIIs. All these variables have been taken as proxy of corporate governance mechanism for measuring its impact on FII in India.

2.3 METHODOLOGICAL OBSERVATIONS

2.3.1 Kind of Data Used in Previous Studies

A number of studies have been conducted on FII in different countries including India, keeping in mind the respective variations in the legal and regulatory environment. Review of previous studies gives a clear indication that most of the studies have used secondary data. Some studies have excluded companies in the banking, finance, insurance, and government sector while some have taken up all the listed companies. Depending upon the availability of data and research related
requirements some studies have used balanced data while some has taken up unbalanced data. Further, some studies have conducted pooled analysis while analysis of some studies has been based on panel data. Majority of studies have concentrated on companies in the USA while very few studies have focused on countries like India, China and Sweden. Data for analyzing the trend and pattern of FII, for computing macro-economic variables, firm performance and corporate governance variables in past research has been obtained from the annual reports, databases, and websites.

2.3.2 Method of Investigation Applied in Previous Studies

Review of literature on various factors affecting FII leads to identification of different methods of investigation applied in previous studies. The trends and pattern of FII in past research has been presented by pie charts, graphs and tables while least square method has been applied for analyzing it empirically (e.g., Bohn & Teaser, 1996; Choe et al., 1998; Chakrabarti, 2001; Saravanakrishnan, 2012; Sharma, 2014).

For analyzing the macro-economic variables as determinants of FII, previous studies have employed either panel regression (e.g., Dandapani & Lawerence, 2013), multiple regression (e.g., Agrawal & Agrawal, 2013; Tripathi & Maggu, 2014), unit root test and vector auto regression (e.g., Gumus et al., 2013), GARCH and ARCH (Dua & Garg 2013), ARDL (Kaur & Dhillon, 2010; Bhasin & Khandelwal, 2014; Mohanasundaram, et al., 2015; Dhingra et al., 2016) and ADF (Kaur & Dhillon, 2010; Agrawal & Agrawal, 2013; Tripathi & Maggu, 2014; Bhasin & Khandelwal, 2014; Mohanasundaram, et al., 2015; Dhingra et al., 2016).

The relationship and impact of firm performance variables on FII has been assessed by applying models like pooled and Tobit model (e.g., Dahlquist & Robertsson, 2001; Cornett et al., 2007; Patnaik & Shah, 2008; Abdioglu et al., 2011), linear regression (e.g., Sarac, 2008; Lakshmi, 2010; Deb et al., 2013), multiple regression (e.g., Mu, 2008), and panel regression (e.g., Dhamija, 2008; Abdioglu et al., 2011; Ding, 2011).

The impact of CG variables on FII has been assessed in various studies by applying techniques like, simple regression (e.g., Bhattacharya & Rao, 2005; Aggarwal et al., 2007; Khan & Banerji, 2016), probit regression (e.g., Aggarwal et al., 2010), and logit regression (e.g., McCAhery et al., 2010).
2.3.3 Variable Definition

It is important to precisely define variables under study for obtaining a clear view of analysis. Table 2.1 presents the definition of variables that has been given in reviewed FII studies.

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<thead>
<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Lakshmi, 2010; Ding, 2011</td>
<td>Foreign Institutional Investment</td>
<td>FII</td>
<td>Proportion of FII holdings in the stock at financial year end (for analysing firm performance and CG variables)</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Bhasin &amp; Khandelwal, 2014; Mohanasundaram, et al., 2015; Dhingra et al., 2016</td>
<td>Foreign Institutional Investment</td>
<td>FII</td>
<td>Net inflows (Debt and Equity in rupees crores, for analysing macroeconomic variables)</td>
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**Proxies of Macro-economic Variables**

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<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Kaur &amp; Dhillon, 2010; Kumar, 2011</td>
<td>Exchange rate</td>
<td>ER</td>
<td>Exchange rate of Indian Rupee in terms of US$</td>
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<td>Kaur &amp; Dhillon, 2010; Kumar, 2011; Dandapani &amp; Lawerence, 2013; Gumus et al., 2013</td>
<td>Index of Industrial Production</td>
<td>IIP</td>
<td>Index for industrial production as proxy for economic growth</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Dandapani &amp; Lawerence, 2013; Gumus et al., 2013; Tripathi &amp; Maggu, 2014</td>
<td>Wholesale Price Index</td>
<td>WPI</td>
<td>Wholesale price index representing home country inflation</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Mohanasundaram, et al., 2015; Dhingra et al., 2016</td>
<td>Producer Price Index</td>
<td>PPI</td>
<td>US Monthly Producer Price Index representing foreign country inflation</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Kumar, 2011; Dhingra et al., 2016</td>
<td>Return on Sensex</td>
<td>RN</td>
<td>Monthly returns on BSE-Sensex</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Dhingra et al., 2016</td>
<td>Return on S&amp;P 500</td>
<td>S&amp;P 500</td>
<td>Monthly Returns on S&amp;P 500 Index</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Dhingra et al., 2016</td>
<td>Turnover of BSE</td>
<td>TO</td>
<td>Stock market turnover of BSE in rupees crore</td>
</tr>
</tbody>
</table>

Contd....
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhatia &amp; Kishor, 2013; Bhasin &amp; Khandelwal, 2014</td>
<td>Foreign Exchange reserves</td>
<td>FR</td>
<td>Foreign Exchange Reserves in rupees crore</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Dhingra et al., 2016</td>
<td>Market Capitalization</td>
<td>MC</td>
<td>Market capitalization of BSE in rupees crore</td>
</tr>
<tr>
<td>Kaur &amp; Dhillon, 2010; Mohanasundaram, et al., 2015</td>
<td>US 3 month T-bill Rate</td>
<td>US T-BILL</td>
<td>Monthly rate of US 3-month T-bill indicating interest rate in US</td>
</tr>
</tbody>
</table>

**Proxies of Firm Performance Characteristics**

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dahlquist &amp; Robertsson, 2001; Lakshmi, 2010; Ding, 2011</td>
<td>Firm Size</td>
<td>SIZE</td>
<td>Log of total assets</td>
</tr>
<tr>
<td>Patnaik &amp; Shah, 2008; Ding, 2011; Deb et al., 2013</td>
<td>Book-to-Market Ratio</td>
<td>BM</td>
<td>Net worth to Market capitalization</td>
</tr>
<tr>
<td>Patnaik &amp; Shah, 2008</td>
<td>Turnover</td>
<td>TURN</td>
<td>Ratio of total value of stocks traded to the market capitalisation</td>
</tr>
<tr>
<td>Dahlquist &amp; Robertsson, 2001; Abdioglu et al., 2011; Ding, 2011; Dandapani &amp; Lawerence, 2013</td>
<td>Dividend Yield</td>
<td>DY</td>
<td>Ratio of dividend to equity to market value of equity</td>
</tr>
<tr>
<td>Dahlquist &amp; Robertsson, 2001; Patnaik &amp; Shah, 2008; Lakshmi, 2010; Abdioglu et al., 2011; Deb et al., 2013</td>
<td>Return on Equity</td>
<td>ROE</td>
<td>Profit after tax to Net worth</td>
</tr>
<tr>
<td>Dahlquist &amp; Robertsson, 2001; Patnaik &amp; Shah, 2008; Abdioglu et al., 2011</td>
<td>Leverage</td>
<td>LEV</td>
<td>Total assets to Net worth</td>
</tr>
<tr>
<td>Cornett et al., 2007; Abdioglu et al., 2011</td>
<td>Cash</td>
<td>CASH</td>
<td>Cash and short-term investments to total assets</td>
</tr>
<tr>
<td>Lakshmi, 2010</td>
<td>Export rate</td>
<td>EXPORT</td>
<td>Exports to sales</td>
</tr>
</tbody>
</table>

**Proxies of Corporate Governance Variables**

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhattacharya &amp; Rao, 2005; Cornett et al., 2007</td>
<td>Board Independence</td>
<td>BIND</td>
<td>Total Non-executive Directors to Total Directors</td>
</tr>
<tr>
<td>Bhattacharya &amp; Rao, 2005; Cornett et al., 2007</td>
<td>Board Size</td>
<td>BSIZE</td>
<td>Number of total directors on the board</td>
</tr>
</tbody>
</table>

Contd....
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Variable</th>
<th>Symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abdioglu et al., 2011; Liu et al., 2011; Suwaidan et al., 2013</td>
<td>Chairman/ CEO Separation (Duality)</td>
<td>CEOD</td>
<td>A dummy variable with a value of 1 if CEO and chairman is the same individual, otherwise 0</td>
</tr>
<tr>
<td>DeZoort &amp; Salterio, 2001; Felo et al., 2003</td>
<td>Audit Committee Size</td>
<td>ACS</td>
<td>Total members in audit committee</td>
</tr>
<tr>
<td>Aggarwal et al., 2007</td>
<td>Audit Committee Independence</td>
<td>AIND</td>
<td>Non-executive Directors to Total Audit Committee Members</td>
</tr>
<tr>
<td>Patnaik &amp; Shah, 2008; Lakshmi, 2010; Ding, 2011</td>
<td>Promoters’ shareholdings</td>
<td>PSH</td>
<td>Shares held by promoters divided by total number of shares issued</td>
</tr>
</tbody>
</table>

**Note:** Compiled on the basis of literature review

As can be observed that in the previous studies, ER, IIP, WPI, PPI, RN, S&P 500, TO, FR, MC and US T-bill, have been used as the proxies of macro-economic variables. SIZE, BM, TURN, DY, ROE, LEV, CASH, EXPORT have been used as proxies of firm performance characteristics in previous studies while BIND, BSIZE, CEOD, ACS, AIND, and PSH have been used as corporate governance proxies. Previous studies have empirically proved the impact of these factors on FII. Though, macro-economic variables due to their unique data collection, processing and analysis related requirements, have been analysed separately in the present study. However, firm performance and corporate governance variables as determinants of FII have been analysed on standalone basis as well as their combined impact on FII is also presented. In this way, present study covers the research gap of previous ones wherein all these factors have been analysed on standalone basis. No single study was found which has taken together all these factors.

### 2.3.4 Substantive Findings

Table 2.2 presents summary of the major studies with respect to determinants of FII. It has been divided into four parts. Part A of the table covers studies relating to the trends and pattern of FII in India. Part B covers studies based on macro-economic determinants of FII. Studies relating to firm performance determinants of FII are covered in Part C while studies based on corporate governance determinants of FII are given in Part D of the table.
Table 2.2: Summary of the Substantive Studies on Determinants of FII

<table>
<thead>
<tr>
<th>Author (s)</th>
<th>Objectives</th>
<th>Sample and Period of Study</th>
<th>Variables</th>
<th>Tools/ Technique Applied</th>
<th>Substantive Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Trends and Pattern of FII in India</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sethi &amp; Sucharita (2009)</td>
<td>Determinants &amp; trends of capital flows in India</td>
<td>1990-2006.</td>
<td>FDI, FPI</td>
<td>Trend analysis</td>
<td>Trend was found to be positive during the period of study.</td>
</tr>
<tr>
<td>Lakshmi (2010)</td>
<td>Firm specific preferences of FII and its trend</td>
<td>1,192 firms; 2009</td>
<td>FIIs, promoter shareholding, size, systematic risk, P/B ratio, ROE, export, sales</td>
<td>OLS regression</td>
<td>FIIs preferred investment in large firms with less concentration of promoter shareholding. There was an increasing trend of FII due to economic reforms and globalisation in 1990.</td>
</tr>
<tr>
<td>Shukla et al. (2011)</td>
<td>Trend of FII inflows and outflows</td>
<td>Monthly data; 2005-2010</td>
<td>BSE- midcap, small cap. Quarterly closing price data of 10 companies; monthly FII data</td>
<td>Correlation</td>
<td>FII increased the volatility of Indian stock market</td>
</tr>
<tr>
<td>Johri et al. (2012)</td>
<td>Trend and investment pattern of FII in Indian stock market</td>
<td>2000-2010, Nifty and Non-Nifty companies</td>
<td>Data collected from NSE</td>
<td>t-test, graphs</td>
<td>FIIs increased substantially during the period of study due to economic reforms.</td>
</tr>
<tr>
<td>Sarvanakrishnan, V. (2012)</td>
<td>Trend and pattern of FII in India</td>
<td>January 2006-October 2011</td>
<td>Data collected from SEBI, India Info line and Money control</td>
<td>Percentage; graphs</td>
<td>Consistent investment pattern in India during the period of analysis except in 2009 due to global crisis.</td>
</tr>
<tr>
<td>Sultana &amp; Pardhasaradhi (2012)</td>
<td>Trend &amp; pattern of FDI and FII in India</td>
<td>2000-2011</td>
<td>Data from RBI, Ministry of Commerce, GOI, BSE, NSE websites</td>
<td>Correlation, Multiple regression</td>
<td>FDI showed upward trend except in 2002-04; FII showed a fluctuating trend. Flow of FII was found to be less than FDI except during the period 2003-2006.</td>
</tr>
<tr>
<td>Agrawal &amp; Agrawal (2013)</td>
<td>Investment trend of mutual funds and FII</td>
<td>2000-01 to 2012-13</td>
<td>Data from SEBI reports. 30 blue chip companies</td>
<td>Graphs</td>
<td>FIIs and mutual funds showed increasing trend during 2003-04 to 2007-08; in 2008-09 FIIs turned negative.</td>
</tr>
<tr>
<td>Kumar &amp; Devi (2013)</td>
<td>Trend &amp; pattern of FDI &amp; FII in India</td>
<td>2000-2012</td>
<td>FDI &amp; FII</td>
<td>Data from RBI, DIPP</td>
<td>FDI showed increasing trend except in the years 2001-04 &amp; 2010-11; flow of FII was less than FDI except for 2003-2006</td>
</tr>
</tbody>
</table>

Contd....
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Objectives</th>
<th>Sample and Period of Study</th>
<th>Variables</th>
<th>Tools/ Technique Applied</th>
<th>Substantive Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kulshrestha (2014)</td>
<td>Behaviour &amp; trend of FII in Indian stock market</td>
<td>2000-2011</td>
<td>FII, daily Sensex, Nifty</td>
<td>Graphs</td>
<td>No. of FIIs and their investments increased over years with decline in 2008-09 with majority of investors from U.S.A.</td>
</tr>
</tbody>
</table>

### B. Macro-economic Determinants of FII

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Objectives</th>
<th>Sample and Period of Study</th>
<th>Variables</th>
<th>Tools/ Technique Applied</th>
<th>Substantive Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaur &amp; Dhillon (2010)</td>
<td>To assess the important determinants of FII in India</td>
<td>S&amp;P 500; 1995-006</td>
<td>FII, WPI, IIP, stock return, market capitalisation</td>
<td>Autoregressive Distributive Lag (ARDL)</td>
<td>Inflation had a negative impact on FII</td>
</tr>
<tr>
<td>Kumar (2011)</td>
<td>To assess the important determinants of FII in India</td>
<td>All firm-year observations during the period of study, i.e., 1993-2009</td>
<td>FII, exchange rate, IIP, GDP, interest rate, stock market return</td>
<td>Augmented Dickey Fuller (ADF), Unit root, Granger Causality tests</td>
<td>Stock market return, IIP, exchange rate were emerged as the important determinants of FII</td>
</tr>
<tr>
<td>Agrawal &amp; Agrawal (2013)</td>
<td>To determine the trend of foreign capital flow and its impact on Indian economy</td>
<td>1950-2007</td>
<td>GDP, one year lagged GDP, trade openness, wage rate, tax rate, political scenario</td>
<td>ADF, Multiple regression, Granger Model</td>
<td>Of all variables under consideration, GDP highly influenced the foreign capital flows.</td>
</tr>
<tr>
<td>Dandapani &amp; Lawerence (2013)</td>
<td>To determine the factors affecting FII in Indian capital market</td>
<td>BSE-500 Index; January, 2002-December, 2009</td>
<td>FII, inflation, dividend yield, exchange rate, IIP, return of both Indian and U.S. market</td>
<td>Panel Regression</td>
<td>FII was found to be significantly positively related with stock market returns and interest rate while negatively with inflation.</td>
</tr>
<tr>
<td>Dua et al. (2013)</td>
<td>To assess the main determinants of FPI</td>
<td>All firm-year observations relating to data on FPI; 1995-2011</td>
<td>Stock market, exchange rate, reserve to import ratio, interest rate, domestic and foreign output growth</td>
<td>GARCH and ARCH model</td>
<td>Domestic stock market performance, exchange rate, output growth were found to be the main determinants of FPI</td>
</tr>
<tr>
<td>Gumus et al. (2013)</td>
<td>To determine the relationship between FPI &amp; macroeconomic variables</td>
<td>61 observations; 2006-2012</td>
<td>IIP, exchange rate, openness, inflation rates, interest rates, economic growth</td>
<td>Unit root test and vector auto regression (VAR)</td>
<td>Inflation and exchange rate had a negative impact on FPI while IIP positively affected it.</td>
</tr>
<tr>
<td>Tripathi &amp; Maggu (2014)</td>
<td>To determine the factors affecting FII debt market</td>
<td>Monthly data; April 2000-September, 2012</td>
<td>IIP, exchange rate, WPI, differential return risks, bonds</td>
<td>Correlation, multivariate regression, ADF, PCF</td>
<td>IIP, exchange rate were the significant factors affecting FII debt market.</td>
</tr>
</tbody>
</table>

Contd…..
<table>
<thead>
<tr>
<th>Author (s)</th>
<th>Objectives</th>
<th>Sample and Period of Study</th>
<th>Variables</th>
<th>Tools/ Technique Applied</th>
<th>Substantive Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venkatraja (2018)</td>
<td>To determine the factors influencing the FIIs investment decisions.</td>
<td>Monthly data; April 2005- December 2016</td>
<td>ER, WPI, IIP, T-bill</td>
<td>Linear multiple regression</td>
<td>ER, WPI and T-bill showed a significant impact on FII in India.</td>
</tr>
<tr>
<td><strong>C. Firm Performance Determinants of FII</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dahlquist &amp; Robertsson (2001)</td>
<td>To find out the firm performance determinants of foreign ownership in Swedish firms</td>
<td>All Swedish listed firms; 1991-1997</td>
<td>Size, leverage, current ratio, ROE, dividend yield</td>
<td>Pooled regression, Tobit model</td>
<td>Foreign investors preferred big-sized firms, with low dividends, large cash position</td>
</tr>
<tr>
<td>Dhamija (2008)</td>
<td>Determination of factors influencing FII</td>
<td>775-1159 companies, 2001-06</td>
<td>FII, share prices, returns, EPS</td>
<td>Panel regression</td>
<td>FII were found to be affected more by return variables than firms’ profitability.</td>
</tr>
<tr>
<td>Patnaik &amp; Shah (2008)</td>
<td>To determine the preference of foreign and domestic institutional investors based on firm performance</td>
<td>7814 observations; 2001</td>
<td>FII &amp; DII, Market capitalization, sales, turnover, ROA, ROE, leverage, age, B/M ratio</td>
<td>Correlation, Tobit model</td>
<td>FII &amp; DII preferred large firms. FIs preferred young and private firms with high liquidity; DII preferred older firms with, large amount of fixed assets.</td>
</tr>
<tr>
<td>Lakshmi (2010)</td>
<td>Firm specific factors affecting FII</td>
<td>1,192 firms; 2009</td>
<td>FII, promotor shareholding, size, systematic risk, P/B ratio, ROE, export, sales</td>
<td>OLS regression</td>
<td>FIs preferred large firms with less concentration of promotor shareholding.</td>
</tr>
<tr>
<td>Abdioglu et al. (2011)</td>
<td>Investment preferences of FIIs investing in US and role of governance quality</td>
<td>77697 observations; 1999-2008</td>
<td>Dividend yield, ROE, leverage, cash, KKM (2007) as governance indicators</td>
<td>Random effect, Tobit panel regression</td>
<td>FIs considered both firm level variables and governance quality while investing.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Objectives</th>
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<th>Variables</th>
<th>Tools/ Technique Applied</th>
<th>Substantive Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ding (2011)</td>
<td>Predictive power of local and FIIs for future stock returns across state owned (SOE) and non-SOE</td>
<td>11394 firms; 2004-2008</td>
<td>Percentage of Local and foreign institutional shareholding, size, B/M ratio, dividend yield, age, return volatility and cumulative market adjusted return</td>
<td>Panel regression</td>
<td>Local investors have informational advantage in SOE while FII had informational advantage in Non-SOE. Further, FIIs were found to be influenced by firm related factors.</td>
</tr>
<tr>
<td>Deb et al. (2013)</td>
<td>Firm performance preferences of FIIs and DIIs</td>
<td>1653 firms; 2000-2010.</td>
<td>Percentage of mutual funds, FIIs, DIIs, beta, B/M, P/E, ROE</td>
<td>Linear regression</td>
<td>FIIs &amp; DIIs preferred big-sized firms, larger market capitalisation, and high liquidity.</td>
</tr>
<tr>
<td>D. Corporate Governance Determinants of FII</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bhattacharya &amp; Rao (2005)</td>
<td>Impact of FII on agency cost</td>
<td>134 firms; 2001-2003</td>
<td>Percentage of FIIs, promoters and other institutional investor’s shareholding, BIND, BSIZE CEO</td>
<td>Multiple regression</td>
<td>FII played an important role in reducing agency cost.</td>
</tr>
<tr>
<td>Aggarwal et al. (2007)</td>
<td>Comparing the governance of foreign firms with U.S. firms</td>
<td>5296 firms; 2005</td>
<td>Governance index with 44 attributes</td>
<td>Linear and multiple regression</td>
<td>Foreign investors preferred firms with stronger board and audit committees</td>
</tr>
<tr>
<td>Aggarwal et al. (2010)</td>
<td>Examining relation of foreign investors with corporate governance across U.S. and Non-U.S. firms</td>
<td>7000 U.S. &amp; non U.S. firms from 23 countries; 2003-2008</td>
<td>41 governance variables by Institutional shareholder services (ISS)</td>
<td>Probit regression</td>
<td>Foreign institutional investors were found to be positively associated with governance quality of firms.</td>
</tr>
<tr>
<td>McCahery et al. (2010)</td>
<td>Preferences of institutional investors with respect to corporate governance</td>
<td>Survey on 1718 investors; 2007</td>
<td>Tobin Q, leverage, cash, closely held shares, investment or M&amp;A expenditure</td>
<td>Questionnaire; Ordinary logit model</td>
<td>Corporate governance and portfolio firm related factors were mainly preferred by institutional investors.</td>
</tr>
<tr>
<td>Khan &amp; Banerji (2016)</td>
<td>Relationship of corporate governance with FDI, and FII</td>
<td>1st 100 companies listed on BSE; 2010-2013.</td>
<td>Corporate governance index</td>
<td>Bivariate regression</td>
<td>FDI and FII were found to be positively associated with corporate governance factors.</td>
</tr>
</tbody>
</table>

**Note**: Compiled on the basis of literature review
2.3.5 Research Gaps

Indian studies have been giving attention to FDI (e.g., Sethi et al., 2003; Kamath, 2011; Sahni, 2012; Kumar & Devi, 2013) because it is considered as an important facet for economic growth as it invests for a longer period of time as compared to FII. Further, more comprehensive data is readily available on FDI while obtaining data on FII is usually a cumbersome process. Most of the studies related to FDI and FII or analyzing the impact of firm performance measures or corporate governance mechanism on FII, were conducted in developed countries such as USA, Swedish listed firms (e.g., Ferreira & Matos, 2006; Kim & Rhe, 2009; McCahery et al., 2010; Abdioglu et al., 2011; Mijiyawa, 2012; Gumus et al., 2013; Azam et al., 2014) than developing countries including India (e.g., Bhattacharya & Rao, 2005; Aggarwal et al., 2007; Parsanna, 2008; Patnaik & Shah, 2008; Aggarwal et al., 2010; Lakshmi, 2010; Deb et al., 2013; Khan & Banerji, 2016). Also, the Indian studies based on foreign investment have either focused on FDI or determining the relationship between FII and stock market (e.g., Johri et al., 2012; Sarvanakrishnan, 2012; Kulshrestha, 2014; Sharma, 2014). Present study attempts to bridge these research gaps. It has been evident that the liberal trade policies and globalization has made India as one of the attractive destination for FII. Hence, present study analyzes the trend and pattern of FII in recent years including various determinants influencing the investment decision of foreign investors with respect to the Indian securities market.

2.4 SUMMARY

The present chapter has incorporated a review of studies relating to the trend and pattern of FII in India and three primary determinants of FII, viz., macro-economic variables, firm performance characteristics, and corporate governance variables. Review of previous research studies has presented various substantial findings. From literature review it has been evident that the trend and pattern of FII in previous research has been presented by pie charts, graphs and tables while least square method has been applied for analyzing it empirically. For analyzing the macro-economic variables as determinants of FII, previous studies have employed either panel regression, multiple regression, unit root test and vector auto regression, GARCH and ARCH, ARDL and ADF. The relationship and impact of firm performance variables

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on FII has been assessed by applying models like pooled and Tobit model, linear regression, multiple regression and panel regression. The impact of corporate governance variables on FII has been assessed by applying techniques like, simple regression, probit regression, and logit regression.

Literature review has also provided sufficient evidence that Indian studies have been giving attention to FDI. Mostly studies related to FDI and FII or analyzing the impact of firm performance measures or corporate governance mechanism on FII, have been conducted in developed countries such as USA, Swedish listed firms than developing countries including India. However, the Indian studies based on foreign investment has either focused on FDI or determining the relationship between FII and stock market. In addition to these factors, there is a need to identify the determinants at macro level also without which study will be incomplete. Present study attempts to bridge these research gaps by studying the trend and pattern of FIIs in recent years and various determinants influencing their investment decision with respect to the Indian securities market.
REFERENCES


