

# A STUDY ON IMPACT OF CORPORATE GOVERNANCE ON FOREIGN INSTITUTIONAL INVESTORS (FII'S) IN SELECTIVE SECTOR IN INDIA

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## INTRODUCTION:

Capital is required by every country for its growth and development. This capital can be arranged from two sources that are external and internal. India is being a developing economy, having potential to grow but facing problem of shortage of capital which it has experience in 1991 when country faces a Balance of Payments crisis which pushed the country to near bankruptcy, due to which India has open there economy for Liberalization, Privatization and Globalization (LPG) which allowed the cross board foreign capital in selective sectors. There are various factors which influence FDI/ FII's in the country like Government policies, Strong Regulatory System, highly Transparent Economy, emerging market, which gives a scope for Foreign Institutional Investor to invest capital. When FII's are investing capital, a Corporate Governance of corporate is one of the factors which will decide inflow of capital in equity and debt. "Corporate Governance is a backbone which shows a set of transparent relationship between an institutions management, its board, shareholder and other stakeholders". Hence the development of economic growth of a country, directly or indirectly influenced by foreign investment which it depends on the quality of the Corporate Governance practices. Therefore it was an exemplified evidence that it is required to explore to investigate the extent of the relation between the impacts of Corporate Governance on FII's.

## REVIEW OF LITERATURE:

**Rajat Deb, (2013) "Corporate Governance Practices in Indian Banks"** aims to examine the practices of Corporate Governance attributes in Banking Sector and how they adhere to Corporate Governance practices. It was based on primary study by interviewing customers through questionnaire. The study concluded that Corporate Governance is very important for banks to perform. The success of corporate governance based on the awareness on the part of the banks of their own responsibilities. The law can control certain practices, the ultimate

responsibility of being ethical and moral remains with the banks. However, it runs into considerable difficulty during implementation.

**Dr. Srinivasa Rao Chilumuri (2013) “Corporate Governance in Banking Sector: A Case study of State Bank of India”** aim is to evaluate the Corporate Governance practice in Banking Sector through a case study of the State Bank of India. The results of the study show that the SBI is implementing all the provisions of Corporate Governance according to the RBI/GOI directions. It is found that State Bank of India, the country’s largest commercial bank, performed well in every aspect in terms of profits, assets, deposits, branches, employees and services to customers. The SBI conducted different board meetings regularly to provide effective leadership, functional matters and monitors bank’s performance.

**Mridushi Swarup, (2011) “Corporate Governance in Banking Sector”** aims to discuss the nature and purpose of corporate governance with special emphasis on the problems of banks in the field of corporate governance. Report of Basel committee was explained with the help of Corporate Governance in banks. The results show that financial institution required specialized set of norms for Corporate Governance.

#### **OBJECTIVES OF THE STUDY:**

1. To examine the trends of FII’s in selected Banking Sector of BSE Index.
2. To examine the effect of Corporate Governance rank on FII’s inflows.
3. To assess the impact of Corporate Governance on the FII’s from banking sector of BSE index.

#### **HYPOTHESIS TESTING:**

The hypotheses formulated are as follows:

H0: Corporate Governance does not have any impact on FIIs inflows.

H1: Corporate Governance has impact on FIIs inflows.

#### **RESEARCH METHODOLOGY:**

##### ***Data Sources and Variable Selection:***

The data was collected SEBI, RBI and department of ministry of finance on monthly basis which was converted into Year on Year basis (YoY) from 2010 to 2014. To find out impact of CG score on FIIs the following variables were take for the study.

1. ***Corporate Governance score (Explanatory variable):*** To measure this variable the data has been collected from “Bloomberg LP” Data Base and ranked from highest score to lowest score arranged between 1 to 12 with an average score of 5 years.
2. ***Foreign Institutional Investors (FII’s) (Dependent variable):*** To measure this variable, the data has been collated from the shareholding patterns of corporate, which is available

from BSE for the period of 5 years in banking sector and ranked in between 1 to 12, depends on aggregate FII's.

### TOOLS & TECHNIQUES:

The study used Ordinary Least Square (OLS) model to show the impact of Corporate Governance ranking on FII's inflows in banking sector from BSE Index i.e. BANKEX.

From this OLS model we get the following regression model

$$Y = a + bx_1$$

Y = dependent variable i.e. FII'S

A = Intercept

B = slope

X1= Explanatory variable i.e. Corporate Governance score

### ANALYSIS AND INTERPRETATIONS:

#### *Objective 1: - To examine the trends of FII's in selected Banking Sector of BSE Index:*

Foreign capital is one of the important components for every countries development. Foreign Capital will come in different forms in the country i.e. FII's. FII's are allowed to invest in all the securities traded on the Primary and the Secondary market including the equity, debt and other securities/instruments of companies listed/to be listed on stock exchanges in India.

**TABLE - 1: TRENDS OF FII'S IN INDIAN BANKING SECTOR DURING 2010 – 2014 (RS. MILLIONS)**

BSE BANKES	2010	2011	2012	2013	2014	TOTAL
Axis Bank Ltd (AXSB IN)	1,15,712	57,856	28,928	16,838	14,464	2,33,798
Bank of Baroda (BOB IN)	4,456	20,228	10,114	6,323	5,057	46,178
Bank of India (BOI IN)	15,617	7,808	3,904	4,641	1,952	33,923
Canara Bank (CBK IN)	25,032	12,516	6,258	4,715	3,129	51,650
Federal Bank Ltd (FB IN)	93,976	46,988	23,494	17,673	11,747	1,93,878
HDFC Bank Ltd (HDFCB IN)	81,480	40,740	20,370	13,709	10,185	16,6,484
ICICI Bank Ltd (ICICIBC IN)	65,239	32,619	16,310	1,524	81,540	1,23,846
IndusInd Bank Ltd (IIB IN)	1,04,056	52,028	26,014	16,257	13,007	2,11,362
Kotak Mahindra Bank Ltd (KMB IN)	81,104	40,552	20,276	12,560	10,138	1,64,630
Punjab National Bank (PNB IN)	41,544	20,772	10,386	7,127	5,193	85,022
State Bank of India (SBIN IN)	25,528	12,764	6,382	3,824	3,191	51,689
Yes Bank Ltd (YES IN)	1,09,320	54,660	27,330	16,516	13,665	2,21,491

*Source: FII's Investment in each bank from BSE Index 2014.*

**Objective – 2: - To examine the effect of Corporate Governance rank on FII's inflows:**

To examine above Banks are ranked, as per Corporate Governance score and then FII's inflow which are different in both variables. The table shows that as per CG ranking "State Bank of India" got first place where as FII's ranking it stand third position. In case of FII's ranking Bank of India got first place, Corporate Governance for this bank is fifth. 'Kotak Mahindra Bank Ltd' got same place for Corporate Governance ranking and for FII's ranking.

**TABLE 2: RANKING OF BANKS AS PER CORPORATE GOVERNANCE AND FII'S INFLOWS**

S.No	LIST OF BANKS AS PER BSE	CG RANKING	FII's RANKING
1	Axis Bank Ltd (AXSB IN)	9	12
2	Bank of Baroda (BOB IN)	3	4
3	Bank of India (BOI IN)	5	1
4	Canara Bank (CBK IN)	4	2
5	Federal Bank Ltd (FB IN)	6	9
6	HDFC Bank Ltd (HDFCB IN)	10	8
7	ICICI Bank Ltd (ICICIBC IN)	11	5
8	IndusInd Bank Ltd (IIB IN)	8	10
9	Kotak Mahindra Bank Ltd (KMB IN)	7	7
10	Punjab National Bank (PNB IN)	2	6
11	State Bank of India (SBIN IN)	1	3
12	Yes Bank Ltd (YES IN)	12	11

*Source: Author Compilation.*

**Objective 3:- To assess the impact of Corporate Governance in selective Banking sector on the FII's from BSE index:**

For the development, the vital key factor is country foreign capital play very important role. This study shows that there is a positive relationship between impacts of Corporate Governance score on FII's inflow in selective banks. Some banks, Axis Bank Ltd, Bank of Baroda, Federal Bank Ltd, IndusInd Bank Ltd, Punjab National Bank, State Bank of India shown a positive effect,

because, when the scores of CG increases the FIIs inflows are also significantly increasing how ever in other banks it is insignificant.

**TABLE 3: AGGREGATE OF CORPORATE GOVERNANCE SCORES AND FII'S INFLOWS**

<b>BANKS AS PER BSE</b>	<b>Corporate Governance (scores)</b>	<b>FII's inflows (Rs. millions)</b>
Axis Bank Ltd (AXSB IN)	47.14	46759.6
Bank of Baroda (BOB IN)	30.71	9235.6
Bank of India (BOI IN)	39.29	6784.65
Canara Bank (CBK IN)	35.00	10330
Federal Bank Ltd (FB IN)	44.64	38775.6
HDFC Bank Ltd (HDFCB IN)	47.50	33296.8
ICICI Bank Ltd (ICICIBC IN)	51.79	24769.37
IndusInd Bank Ltd (IIB IN)	46.79	42272.4
Kotak Mahindra Bank Ltd (KMB IN)	45.00	32926
Punjab National Bank (PNB IN)	29.29	17004.4
State Bank of India (SBIN IN)	28.57	10337.8
Yes Bank Ltd (YES IN)	56.43	44298.2

*Source: Author Compilation.*

The following analysis explains the relationship between i.e. FII's dependent variable and explanatory variable Corporate Governance score in BANKEX (BSE)

**OLS, USING OBSERVATIONS 1-12 (DEPENDENT VARIABLE: FIIS)**

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
Const	-28240.1	13627.4	-2.0723	0.06503	*
CG	1305.75	318.721	4.0968	0.00216	***

Mean dependent var	26399.20	S.D. dependent var	15125.70
Sum squared resid	9.4008	S.E. of regression	9693.353
R-squared	0.626643	Adjusted R-squared	0.589307
F(1, 10)	16.78402	P-value(F)	0.002155
Log-likelihood	-126.0837	Akaike criterion	256.1674
Schwarz criterion	257.1372	Hannan-Quinn	255.8083

The above OLS model shows the positive relationship between the FII'S and Corporate Governance score i.e. 62% which tells that 62% variation in FII'S is due to Corporate Governance score. Similarly the T value of Corporate Governance score is less than 0.05% which shows that the Corporate Governance score is individually as well as overall significant to dependent variable i.e FII'S. Regression explains that 1- unit increase in Independent variable i.e Corporate Governance score, the FII'S inflow will go up by 1305.75. i.e  $x1 \times 1305.75$ . Since P (value) of equation is .i.e. 0.002155 which is less than 0.05% significance level so reject the null hypothesis and accepts the alternate hypothesis i.e. Corporate Governance score has impact on FII's inflow and there is significant relationship between the FII'S and Corporate Governance score.

### CONCLUSIONS:

This paper has examined the effect of Corporate Governance Ranking on Flow of FII's in Indian Banking sector. The results, shows that there is a positive relationship between FII's and corporate governance which means that banks which highest got ranking are able to attract FII's investment. When Corporate Governance ranking is increasing led increase in FII's in the economy, which is the positive sign for economic development. Thus the Corporate Governance and FII's are highly significant in economic development.

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