

Impact of Corporate Governance on Foreign Institutional Investment

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Abstract :

Capital is required for the growth and also for the development of every sector of the economy at large. There are two sources of arranging capital that is internal sources and external source. In the year 1991 India has faced Balance of Payment crisis which force India to open the economy for liberalisation, Privatisation and Globalization. This allows a foreign capital to invest in selected sector. There are various factors which can affect the foreign capital investments like Strong Regulatory System, emerging market, transparent economy etc and this gives scope to Foreign Institutional Investors (FII) to invest capital. Corporate Governance is also considers as one of the factor which can have impact on inflow of capital in equity and debt. Hence there arises a need to find out to what extent FII are related with Corporate Governance of a company. The present study tries to find out the relation of Corporate Governance with FII and also tries to find out the other extraneous variables impact on FII. For the study purpose the secondary data will be collected from respective company's annual reports of the year 2015-16. CNX Nifty 50 companies are selected for the study. To find out the impact various statistical tool were applied like Correlation Coefficient, Regression model, f-test and z-test.

INTRODUCTION

Corporate Governance the term deals with creating the value of the business by not only earning profits for the organisation but it should behave in such a manner that in the long run interests of all the stakeholders are sustained. This Corporate Governance deals with the multi-tiered process which includes organisation's culture, its policies , values and ethics of the people who are running the business and also includes the way they deals with all the stakeholders. The term was seen lay back in 1947 when India got Independence. At that time India was having a well developed banking sector, active manufacturing sector, and also a comparatively well developed British derived convention of Corporate Practices(Sharma, December 2014). Different Government agencies were funding to the Private firms and the Private providers of debt and equity were facing problem due to long delays in judicial proceedings and also find difficulty in enforcing claim at the time of bankruptcy. Public companies are only required to comply with limited governance and disclosure standards enumerated in the companies Act of 1956, the Listing Agreement, and the Accounting Standards set forth by the Institute of Chartered Accountants of India(Sharma, December 2014). In the year 1970 Watergate scandal forces the world to think in the subject of Corporate Governance. This led to the development of the Foreign and Corrupt Practices Act of 1977 that contained specific provisions regarding the establishment, maintenance and review of systems of internal control. In United Kingdom the big scandal of Band of Credit and Commerce International Bank in the year 1992 forced to bring certain norms in the field of protecting the interest of the stakeholders.

In the year 1991 India had faced a fiscal crisis which brings Liberalisation in the economy. With Liberalisation, Privatisation and Globalisation there was an increase in the corporate houses

around the world. With the increase in the corporate houses, a corporate responsibility towards their stakeholders also increases. Securities scam of 1992, disappearance of a number of companies after raising money through the stock market during the 1993-1994, etc. shattered investor's confidence. With the increase in the corporate houses frauds like Harshad Mehta scam, Enron has also started in the world's economy. So such fraud enforced law to take initiatives in the bringing certain ethical norms in formal or informal ways to protect the interest of all the stakeholders. The first step taken in India in the field of Corporate Governance and Investors protection is the establishment of Securities and Exchange Board of India Act of 1992 (SEBI Act).

The first major initiative in India was taken by the Confederation of Indian Industry (CII), India's largest industry and business association. They came up with the first voluntary guidelines for Corporate Governance in 1998. They drafted the code for best practices and a final document title " Desirable Corporate Governance : A Code" was publicly released in April 1998. But as it was voluntary few progressive companies have adopted so it was felt to bring statutory code to make Corporate Governance more meaningful. Hence SEBI took the initiative in 1999 and set up a committee under the chairmanship of Kumar Manglam Birla to Promote and raise standards of goods Corporate Governance. They placed emphasis on independent directors, their independence, function and constitution of board audit committees and this were incorporated into Clause 49 of the listing agreement of the Stock Exchange.

Again in 2002 Department of Company Affairs under the Ministry of Finance and Company Affairs appointed Naresh Chandra Committee in August 2002. They made recommendations regarding Financial, Non-financial disclosures, independent auditing, Rotation of Audit Partners etc. Again the fourth initiative was undertaken by SEBI under the Chairmanship of Narayan Murthy for giving recommendations in order to review Clause 49. The major recommendations were relating to Audit Committees, Audit Reports, independent directors, related party transactions, Risk Management, Directorships, directors compensations, Code of Conduct and financial disclosures.

Even in the Companies Act several times, changes has been recommended regarding postal ballots, audit committee etc. Later committee chaired by J.J.Irani taken the charge for detailed review of Companies Act 1956 and given recommendations to rewrite the law and brought Companies Bill 2008, which was resubmitted as Companies Bill 2009. Later after a big scandal of Satyam again CII has been given recommendations to bring balance between over regulations and promotions of strong Corporate Governance. So they have recommended Voluntary reforms. With this another Corporate Body called The National Association of Software and Services Companies (NASSCOM) under the Chairmanship of N.R.Narayan Murthy formed a Corporate Governance and Ethics Committee and issued recommendations in 2010 by focusing on the stakeholders.

Even after installing certain Corporate Governance in India and as well as in world, business stakeholders are experiencing certain unethical behaviour from some corporate houses. Frauds like Satyam scam (2009), Saradha chit fund (2013), Speak Asia Scam (2011), Tyco Ltd (2005), Worldcom(2002), Enron (2001)etc. still continues. In the certain above scams it has been analysed

that the directors are responsible for the fraud and so such scams happen. Hence there is a need arises for improving the Corporate Governance standards to maintain the faith of the investors.

Corporate Governance stands for responsible business management geared towards long term value creation. It focuses on a company's structure and processes to ensure fair, responsible, transparent and accountable corporate behaviour. Good Corporate Governance is a key driver of sustainable corporate growth and long term competitive advantage. Good governance means better allocation of corporate resources which contribute towards better performance. Investors and lender will be more willing to put their money in firms with good governance.

Corporate Governance is affected by the relationship among participants in the governance systems. Individual shareholders usually do not seek to exercise governance rights but may expect for obtaining fair treatment from controlling shareholder and management. The degree to which corporations observe basic principle of good Corporate Governance is an increasingly important factor for investment decision. The particular relevance is the relation between Corporate Governance practices and increasingly international character of investment.

International flow of capital enables to access financing from a much larger pool of investors. Corporate Governance if well understood across boards and adhere to internationally accepted principles then they can get benefits of global capital market by attracting Long term and short term capital. It can improve the confidence of investors, underpin the good functioning of financial markets and ultimately induces more stable sources of financing.

In this age of transnational capitalism, countries and firms are interested in attracting foreign capital because it helps to create liquidity for both the firms stock and the stock market in general. This directly benefits the economy and the country. The developing countries like India are considered as the better place for investment by the foreign investors as foreign investors are interested in earning return. The rate of return in the developed countries are very less compared to the developing countries so to earn more return foreign investors are interested to invest their money in the primary and the secondary markets. On the other hand foreign exchanges help the developing country to meet the trade deficits. Foreign Investment provides a channel through which these countries can have access to foreign capital. It can come in two forms. Foreign Direct Investment(FDI) involves in the direct production activity and is of medium to long term nature. While Foreign Institutional Investment (FII) is short term investments.

FIIs means an institution established or incorporated outside India which proposes to make investment in securities in India. They are required to be registered as per section 2(f) of the SEBI (FII)regulations 1995. They are allowed to subscribe to new securities or trade in already issued securities. They invest mostly in the financial markets like money market, stock market, stock exchange market etc. hence understanding the determinants of FII is very important for an emerging economy of India as it would have larger impact on the domestic financial markets in the short run and real impact in the long run.

Hence the need arises to find out the factor which FII is giving importance for investing their funds in India. There can be many factors but here some of the factors are considered like Corporate Governance Practices, Earning Per Share (EPS),Return on Net Worth Dividend Payout

Ratio etc are selected so that the relation can be found out and can be said that whether Corporate Governance has been selected by the investors for investing the money in the companies or there are certain other factors which can influence the investors.

Review of Related Literature

The scope of Corporate Governance and its application changes across countries and world. Over the years it has also been observed that the concept has evolved to keep up with the pace of the growing international markets. Hence the following review of the literature is considered as the base in extracting definitions and constructing Corporate Governance Index and applying statistical tools to analyse the results.

James and Eugene (2013), examined that whether Foreign Institutional Investors take into consideration Indian Companies Corporate Governance practices in their stock selection decision process and also examined to what extent improvements or a decline in governance standards of Indian companies affects their propensity to attract and retain Foreign institutional investment. Primary and Secondary data were collected for their study. Findings of the survey suggested that investors do take into account companies' governance standards. But financial indicators such as return on equity and earnings per share carry more relative weight and importance than corporate governance standards. Regression model and the overall analysis of Indian IT companies revealed that firms with improving governance standards over a 4 year period are better at attracting and retaining foreign institutional investment than firms declining standards (Eugene, 2013).

Prof Raithatha M. Bapat (2012), he studied the compliance of the Corporate Governance requirements by Indian companies. A index has been developed to calculate the Corporate Governance score of Companies and then it is related to company attributes like size, profitability, leverage, foreign ownership etc. He concluded that there is no significant correlation exists between Corporate Governance score and companies characteristics however compliance by Indian companies has been satisfactory. Factor analysis of sub parameters of Corporate Governance score has been done which shows that strength of committee and competency level of Board are important factors (Bapat, vol 3, no. 8, 2012).

Allam Mohammed, Adel Mohammed and Sameh M.Redha (2013), they want to study the impact of Audit Committee Characteristics on the Performance of the Jordanian companies and also the role played by Audit committee in improving the performance. Audit Committee characteristics like Audit Committee size, Independence, Meetings Financial Expertise were taken as a Independent variable, Financial performance variables like Market value added, Return on investment, Net Profit Margin Return on Assets, Earnings per share were taken and even a control variable of Company size and financial leverage were considered for the analysis of the study. Descriptive statistics were conducted to reflect the impact of independent variables on the performance. Two years data 2008 and 2009 were collected. They analysed that there is a impact of Audit committee characteristics on the financial performance of the company but there is less awareness and understanding about the need of experience of audit committee. Even Ordinary Least Square test was used. This proves that efficient audit committee could lead to an increase in Operating

Performance as it can be seen that there is no relation between audit committee characteristics and operational performance while there is a positive relation between audit committee characteristics and stock performance (Allam Mohammed Hamdem, 2013).

Prof. Rupesh Kumar Gupta (2013), the objective of the study is to analyse the impact of Corporate Governance on Foreign Direct Investment. In the paper certain good practices are discussed which will influence the FDI like Fraud Risk Management, Corporate Social Responsibility, Risk Management Practices, Investors and Lender Relationships, Performance Management System and Joint Venture (Gupta, 2013).

Amos N. Dombin (2013), the objective of the paper is to study the role of Corporate Governance in attracting Foreign Investments in Nigeria. For this purpose the researcher has explained the concept of Corporate Governance and the importance of Foreign Investment in the Nigerian Economy. Commonly Accepted principles, Elements and Need and Importance of Corporate Governance were discussed. Even the relationship of Corporate Governance with Foreign investment were discussed in order to attract Foreign Investment, like Better governance will have better goodwill, increase in transparency, accountability, strengthen investors from sudden crisis etc. (Dombin, 2013)

Relevance of the study:

In India, Indian firms are interested in attracting foreign capital as it will increase the liquidity position for firm and stock market. The foreign portfolio inflows into Asia are considered "hot" money since they have little to do with economic fundamentals (Eugene, 2013). At the same time the financial crisis and corporate scams like Harshad Mehta scam, Satyam scam etc., held the weaknesses lie in Corporate Governance and in financial reporting. This frightens the foreign investors in investing their money. Hence Corporate Governance has become a lime light topic which should even take care of the interest of foreign investors and always try to increase their investments in the companies and also help the firm to access in global capital markets.

Many factors are responsible for availing foreign capital from which one of the factors is the Corporate Governance Practices. This is considered as one of the major factor as it can protect rights of minority shareholders so it will attract Foreign Institutional Investors Investments and also ensures that it can positively contribute to the economic development goals.

Hence the study will focus mainly on Corporate Governance practices followed by the companies and % of FII investments in the total paid up share capital in that particular company.

With the Corporate Governance score, to find the impact of other variables different ratios are also considered and from each category of ratio one ratio is selected. Like for Liquidity ratio Current Ratio has been selected for study as it is considered as it shows the actual liquidity position of the company and it should be considered as while making decision for investment it is also to be seen that whether company is able to meet its short term liabilities and to what extent. So Current Ratio is selected as another variable for comparing purpose. From Profitability ratio Return on Net Worth is been considered as it is actually the net profit that is to be distributed to the

shareholders by way of dividend or retained in the business by way of reserves and surplus this is also considered as one of the important factor for investment decisions. Hence this is the another ratio selected for comparing purpose.

Thirdly the Valuation Ratio has been considered where Earning Per share is taken as one of the factor for decision purpose as Earning Per share is also one of the important tool for the investors for taking decisions regarding investment and they invest in the company. Lastly Dividend payout ratio is been considered as Shareholders or the investors are also interested in Dividend from the company. Hence this four ratios are considered for study as independent factor for influencing the FII investment in the companies. So this four factors are also included in the study. Thus the question arises for doing research is **Do foreign investors actually take into consideration the corporate governance practices of Indian companies in their investment decisions?**

Hence, this form the core objectives of the research, that is to find out the relationship of Corporate Governance practices with FII investments in listed companies of India.

The other objectives of the study are as follows:

1. To understand the Corporate Governance practices undertaken by the listed companies.
2. To examine the FII consideration for stock selection
3. To find out whether any significant relationship exist between FII investment and Corporate Governance Standards of Company.
4. To find out whether any significant relationship exist between FII Investments and other factors of study.
5. To find out the linear relationship between Corporate Governance practices and other factors on FII investments of study.

Data collection:

Corporate Governance Index has been framed considering the base of many research papers. The data's of all CNX Nifty 50 companies will be collected. Total 66 points were given to all the parameters and sub parameters of Corporate Governance Index which includes both mandatory and non-mandatory items of disclosure. Then score were allocated to each company selected for research and collection of Corporate Governance score of each company for the financial year 2015-16 were done from their respective annual reports. The details of Corporate Governance will be collected from the Annual Reports of selected company from their respective websites. % FII investments in the share capital of the respective company's details are also collected from their Annual Reports year ending 31st March 2016. For finding out the relation other ratios of each category has been selected Earnings Per share, Return on Net Worth, Current Ratio and Dividend Payout ratio of each company is taken from their respective Annual Reports and the websites like Moneycontrol.com, BSE Index etc. as they are the other factors considers to correlate with FII investments.

Sample description:

For collecting the data judgement sampling is used and so according to the judgement S & P CNX Nifty 50 Index companies are selected for the study which can represent the population of the study.

Corporate Governance Index:

To construct Corporate Governance Index the base of many research paper has been considered. Mandatory and Non-Mandatory disclosures suggested by SEBI under clause 49 has been considered and Corporate Governance Index has been framed with maximum 66 points are allocated in all. For assigning the points maximum 2 points has been allotted. The reason of giving two points is because of certain disclosures where certain criteria has to be maintained like ratio of Non-Executive Directors (NED) to Total Directors (TD) should be 50 % if chairman is Non-Executive directors, if this criteria is satisfied 2 points to be given for ratio of NED to TD, if not satisfied i.e. if ratio is less than 50 % than 1 points should be given and there is no NED than 0 points will be given. If the item is only for disclosures or not, like Company's Philosophy than 2 will be allotted for disclosures and 0 for non-disclosures. Total 66 points were given to all the parameters and sub parameters of Corporate Governance Index which includes both mandatory and non-mandatory items of disclosure.

The Mandatory disclosure items includes Company's Philosophy, Chairman of Board of Directors is Non Executive, Ratio of Non-Executive Director to Total Director, Ratio of Independent director to Total Director, Directorship in other company Maximum 10, Chairman in other company Max 5, Membership in other company Max 10, Number of Board Meetings if more than 4 times in a year, Code of conduct, Chairman of Audit Committee is Independent director, Number of members 3 or more, Ratio of Non-Executive Director to Total Directors, Ratio of Independent Directors to Total Directors, Audit Committee meetings more than 4 times in a year, Presence of Chairman in AGM, Management and Discussion Analysis, CEO/CFO Certification and External Audit Certification. These are the parameters and sub parameters of Mandatory disclosure where maximum 2 points are allotted. So Total 36 maximum points are allotted to Mandatory disclosures.

The Non-Mandatory disclosure items includes Shareholder's Grievance committee chairman is Non-Executive director, Whistle Blower Policy, Disclosure of Accounting Treatment, Related Party Transactions, Remuneration to Directors, Disclosures of Non Compliance, Market Price, Postal Address, Shareholder's Pattern, Remuneration Committee where chairman should be Independent Director, Number of Non Executive Directors, Ratio of Number of Non Executive Director to Total Directors, Presence of Chairman in AGM, Independent Directors Meeting and Postal Ballot. These are the parameters and sub parameters of Non-Mandatory disclosures where maximum 2 points are allotted. So Total 30 maximum points are allotted to Non-Mandatory disclosures. Hence total 66 points are allotted to the whole Corporate Governance Index.

The whole Corporate Governance Index has been shown in Annexure 1.

Research Methodology

The present study is purely an empirical study where data will be collected and will be analysed by applying various statistical tool and hypothesis will be tested.

The aim of this research is to determine whether the level of governance practiced by Indian firms affects their ability to attract foreign equity investments. Correlation Coefficient Technique is conducted to determine whether any relationship exist between Indian companies governance standards and their level of Foreign Institutional Investments. In parallel, this relationship is also compared with the company's Earning Per share, Return on Net Worth, Current Ratio and Dividend Payout Ratio which is also considered as criteria upon which investors based their selection of stocks.

For analysing the data, Corporate Governance Index has been formulated depending upon the index formulated by one of the author James Eugene in his Final Management Report 2012-13 titled "The role of Corporate Governance in attracting and retaining foreign investments in India: The case of India IT Companies". From the annual reports Corporate Governance score has to be calculated for each companies. FII investments in companies also been collected from their annual reports. Earning Per share and Return on Net Worth, Current Ratio and Dividend Payout Ratio will also been collected from the company's Annual Report.

Multiple Regression model will be developed and F test will be applied on the data and Z-test will be applied to find out the significance of the correlation coefficient of the variables.

Data Analysis :

Table 1 :

Corporate Governance score of Nifty 50 companies:

The Below table shows the total score of Corporate Governance Disclosure of each individual company selected for the study out of maximum 66 points.

Name of Companies	CG SCORE	Name of Companies	CG SCORE
ACC LTD	56	INFOSYS	58
ADANI PORTS	61	KOTAK MAHINDRA	56
AMBUJA CEMENTS	55	L & T	59
ASIAN PAINTS	59	LUPIN	61
AUROBINDO PHARMA	55	MAHINDRA AND MAHINDRA	55
AXIS BANK	35	MARUTI SUZ	58
BAJAJ AUTO	55	NTPC	59
BOB	45	ONGC	44
BHEL	56	PGCIL	52
BPCL	47	RELIANCE IND	50
BHARATI AIRTEL	51	SBI	54
BHARATI INFRATEL	53	SUN PHARMA	53
BOSCH	53	TCS	52
CIPLA	54	TATA MOTORS	53
COAL LTD	47	TATA POWER	36
DR. REDDY	55	TATA STEEL	54
EICHER	59	TECH MAHINDRA	59
GAIL LTD	47	ULTRA TECH CEMENT	52
GRASIM IND	54	WIPRO	63
HCL TECH	52	YES BANK	59
HDFC BANK	56	ZEE ENTERTAINMENT	47
HERO MOTO	58	ICICI	54
HINDALCO	53	ITC LTD	53
HINDUSTAN UNILEVER	47	IDEA CELLULAR	56
HOUSING DEV	48	INDUSLAND BANK	55

CHART TITLE

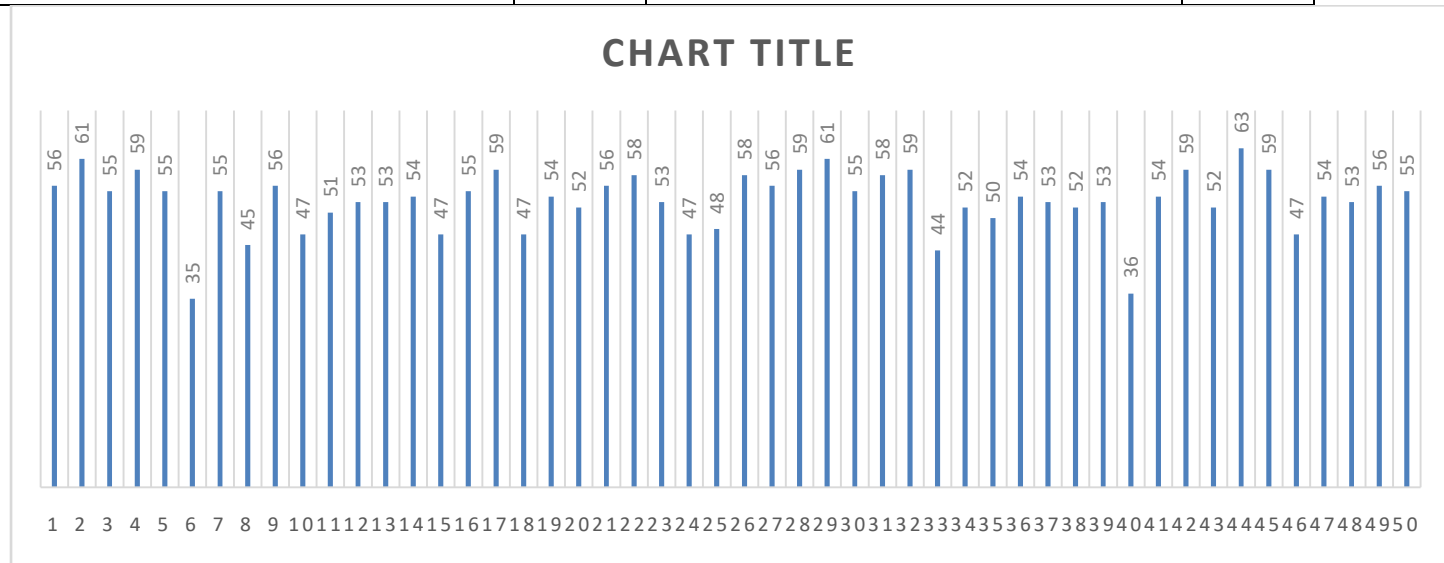


Chart 1 :

Corporate Governance score of Nifty 50 companies

The above table gives information regarding the Corporate Governance Score achieved by each companies. It can be said that highest score is of Wipro Ltd with 63 out of 65 and the 61 score is of Lupin and Adani Ports. The least score is of Axis bank with 35 out of 65 points.

Table 2 :

FII investments in the Paid Up Share Capital of the CNX Nifty 50 companies in %.

The below table shows the investments done by the FII in the paid up share capital of the CNX Nifty 50 companies in % of the total paid up share capital.

Name of Companies	FII Investment in Total Paid up Share Capital of Company in %	Name of Companies	FII Investment in Total Paid up Share Capital of company in %
ACC LTD	12.16	ICICI	0.07
ADANI PORTS	19.13	ITC LTD	20.45

AMBUJA CEMENTS	17.4	IDEA CELLULAR	24.2
ASIAN PAINTS	18.02	INDUSLAND BANK	43.3
AUROBINDO PHARMA	27.4	INFOSYS	22.65
AXIS BANK	48.05	KOTAK MAHINDRA	36.85
BAJAJ AUTO	17.78	L & T	16.25
BOB	11.45	LUPIN	27.52
BHEL	13.95	MAHINDRA AND MAHINDRA	21.27
BPCL	21.13	MARUTI SUZ	23.95
BHARATI AIRTEL	10.76	NTPC	10.75
BHARATI INFRATEL	25.52	ONGC	5.6
BOSCH	7.69	PGCIL	26.49
CIPLA	10.7	RELIANCE IND	17.55
COAL LTD	8.52	SBI	9.52
DR. REDDY	27.42	SUN PHARMA	15.09
EICHER	28.86	TCS	10.163
GAIL LTD	16.35	TATA MOTORS	27.62
GRASIM IND	22.83	TATA POWER	16.58
HCL TECH	26.94	TATA STEEL	14.36
HDFC BANK	32.21	TECH MAHINDRA	25.04
HERO MOTO	22.31	ULTRA TECH CEMENT	0.84
HINDALCO	19.51	WIPRO	10.94
HINDUSTAN UNILEVER	3.61	YES BANK	41.25
HOUSING DEV	77.4	ZEE ENTERTAINMENT	37

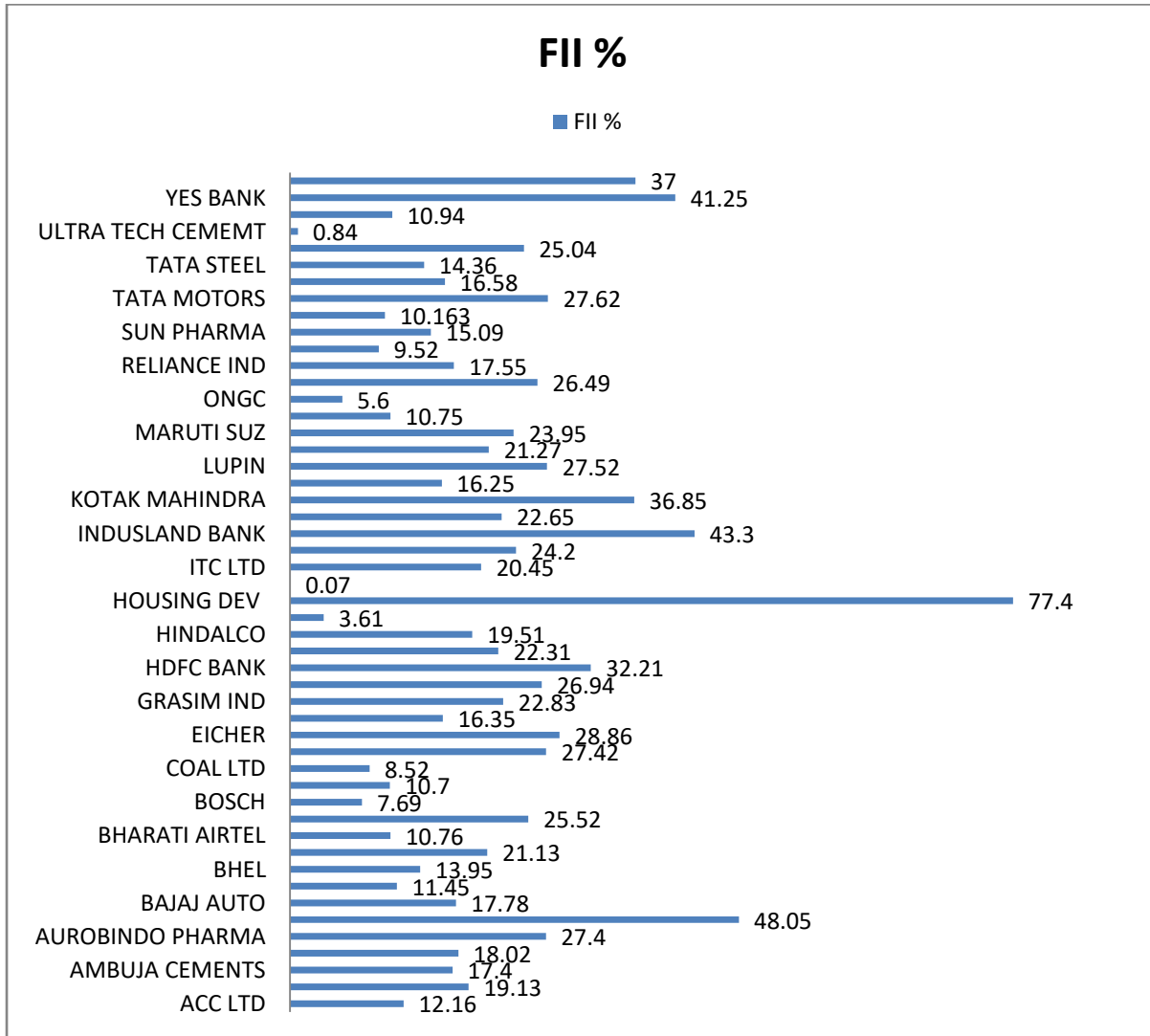


Chart 2 :

FII Investment in CNX Nifty 50 companies(FII Investment in the total paid up share capital of the company in %). Collected from the annual reports of the respective companies.

The above table shows the FII investments in the total paid up share capital of Nifty 50 companies in %, which shows maximum % investments, is in Housing Development Finance Companies with 77.4% and least is in ICICI Bank with 0.07%.

Table 3 :**Relationships of Corporate Governance Score and the FII investments in total paid up share capital of Nifty 50 companies in %.**

Company's name	CG SCORE	FII Investment in Total paid up Share Capital of companies in %	Company's name	CG SCORE	FII Investment in Total paid up Share Capital of compaies in %
ACC LTD	56	12.16	ITC LTD	56	20.45
ADANI PORTS	61	19.13	IDEA CELLULAR	59	24.2
AMBUJA CEMENTS	55	17.4	INDUSLAND BANK	61	43.3
ASIAN PAINTS	59	18.02	INFOSYS	55	22.65
AUROBINDO PHARMA	55	27.4	KOTAK MAHINDRA	58	36.85
AXIS BANK	35	48.05	L & T	59	16.25
BAJAJ AUTO	55	17.78	LUPIN	44	27.52
BOB	45	11.45	MAHINDRA AND MAHINDRA	52	21.27
BHEL	56	13.95	MARUTI SUZ	50	23.95
BPCL	47	21.13	NTPC	54	10.75
BHARATI AIRTEL	51	10.76	ONGC	53	5.6
BHARATI INFRATEL	53	25.52	PGCIL	52	26.49
BOSCH	53	7.69	RELIANCE IND	53	17.55
CIPLA	54	10.7	SBI	36	9.52
COAL LTD	47	8.52	SUN PHARMA	54	15.09
DR. REDDY	55	27.42	TCS	59	10.163
EICHER	59	28.86	TATA MOTORS	52	27.62
GAIL LTD	47	16.35	TATA POWER	63	16.58
GRASIM IND	54	22.83	TATA STEEL	59	14.36
HCL TECH	52	26.94	TECH MAHINDRA	47	25.04
HDFC BANK	56	32.21	ULTRA TECH CEMEMT	54	0.84
HERO MOTO	58	22.31	WIPRO	53	10.94
HINDALCO	53	19.51	YES BANK	56	41.25
HINDUSTAN UNILEVER	47	3.61	ZEE ENTERTAINMENT	55	37
HOUSING DEV	48	77.4	ICICI	58	0.07

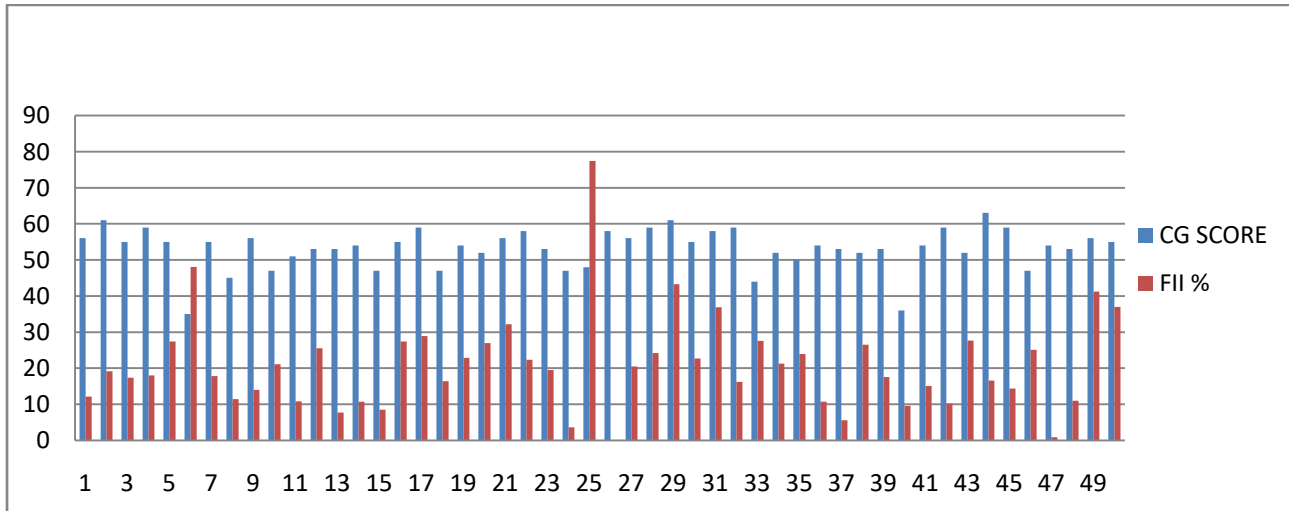


Chart 3 :

Correlation Coefficient of Corporate Governance score with FII Investment in Total Paid up Share Capital in % in Nifty 50 companies.

	<i>CG SCORE</i>	FII Investment in Total paid up Share Capital in companies in %
<i>CG SCORE</i>	1	
<i>FII %</i>	-0.08656	1

To analyse the data, simple correlation coefficient technique has been applied and it shows negative correlation between dependent variable FII Investment in Total paid up Share Capital in CNZ Nifty 50 companies in % with independent variable Corporate Governance score. The company having maximum FII investment in % of total paid up share capital but its CG score is not maximum while the company having minimum FII investment in % of total paid up share capital its CG score is good. So it can be seen that the FII investment in % of total paid up share capital is very fluctuating in comparison to CG score. Even the Correlation between this tow variable is also negative which shows that FII investment in % of total paid up share capital is negatively correlated with CG score. Hence it can be said that Foreign investors are least concerned about Corporate Governance even if Corporate Governance are been done for the interest of stakeholders.

t test is also to be applied to find out the correlation between the population of the variables. Hence to test the t test hypothesis is to be framed, that is

Ho : $\delta=0$ (Corporate Governance and FII has no correlation)

H1 : $\delta\neq 0$ (Corporate Governance and FII has correlation)

To test t formula used is

$$t_{cal} = r \sqrt{\frac{n-2}{1-r^2}}$$

Rejection criteria is Reject Ho if $t_{cal} < t_{n-2, \alpha/2}$

Here $n=50, \alpha = 0.1$

$t_{48, 0.05} = -1.68$ tabulated value

t_{cal} value is -0.60196 . here $t_{cal} > t_{tab}$

Hence it does not satisfy the condition of Rejection criteria i.e. $t_{cal} < t_{n-2, \alpha/2}$

So we accept Ho i.e. the Corporate Governance and FII Investment in Total paid up Share Capital in %

has no correlation.

After it *f-test* is calculated to find out the significance of Regression line. For testing the significance hypothesis framed are

Ho = Regression line is not significant.

H1 = Regression line is significant.

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R		0.086558				
R Square		0.007492				
Adjusted R Square		-0.01318				
Standard Error		13.34082				
Observations		50				
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	64.48933	64.48933	0.362345501	0.550039404	
Residual	48	8542.917	177.9774			
Total	49	8607.407				
	<i>Coefficients</i>	<i>Standard</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>

		<i>Error</i>				
Intercept	31.84369	18.03335	1.765822	0.083785614	-4.414786022	68.10215754
CG SCORE	-0.2027	0.336733	-0.60195	0.550039404	-0.879743051	0.474349669

Based on the above summary

Regression equation drawn as follows :

$$y = -0.2027x + 31.84369$$

Here the condition applied is if $F_{cal} > F_{tab}$, then reject H_0 and accept H_1 .

F_{tab} value is 0.003973

F_{cal} is 0.362345501 which is $>$ than F_{tab} so we reject H_0 and accept H_1 which says that the regression line is significant between two variables.

Table 4 :

Reported Earnings Per share and FII Investment in Total Paid up Share Capital of CNX Nifty 50 companies in %.

The below table shows the Reported Earning Per Share of the companies i.e. the portion of a companies profit allocated to each outstanding share of common stock which is presented in Rs Per share and FII Investment in Total Paid up Share Capital of companies in %

Name of Companies	EPS	FII Investment in Total Paid up Share Capital of companies in %	Name of Companies	EPS	FII Investment in Total Paid up Share Capital of companies in %
ACC LTD	32.08	12.16	ICICI	16.73	0.07
ADANI PORTS	13.72	19.13	ITC LTD	12.23	20.45
AMBUJA CEMENTS	4.89	17.4	IDEA CELLULAR	7.27	24.2
ASIAN PAINTS	16.65	18.02	INDUSLAND BANK	38.43	43.3
AUROBINDO PHARMA	27.68	27.4	INFOSYS	68.63	22.65
AXIS BANK	34.51	48.05	KOTAK MAHINDRA	11.39	36.85
BAJAJ AUTO	126.22	17.78	L & T	57.02	16.25
BOB	15.83	11.45	LUPIN	64.03	27.52
BHEL	-3.73	13.95	MAHINDRA AND MAHINDRA	51	21.27
BPCL	55.19	21.13	MARUTI SUZ	151.33	23.95

BHARATI AIRTEL	18.88	10.76	NTPC	12.42	10.75
BHARATI INFRATEL	6.98	25.52	ONGC	18.71	5.6
BOSCH	396.8	7.69	PGCIL	11.52	26.49
CIPLA	17.4	10.7	RELIANCE IND	84.61	17.55
COAL LTD	25.87	8.52	SBI	12.82	9.52
DR. REDDY	79.39	27.42	SUN PHARMA	-4.46	15.09
EICHER	452.8	28.86	TCS	116.13	10.163
GAIL LTD	18.12	16.35	TATA MOTORS	0.68	27.62
GRASIM IND	102.12	22.83	TATA POWER	2.85	16.58
HCL TECH	33.56	26.94	TATA STEEL	50.46	14.36
HDFC BANK	48.64	32.21	TECH MAHINDRA	33.27	25.04
HERO MOTO	156.9	22.31	ULTRA TECH CEMENT	79.24	0.84
HINDALCO	2.94	19.51	WIPRO	32.78	10.94
HINDUSTAN UNILEVER	18.87	3.61	YES BANK	72.95	41.25
HOUSING DEV	44.9	77.4	ZEE ENTERTAINMENT	7.69	37

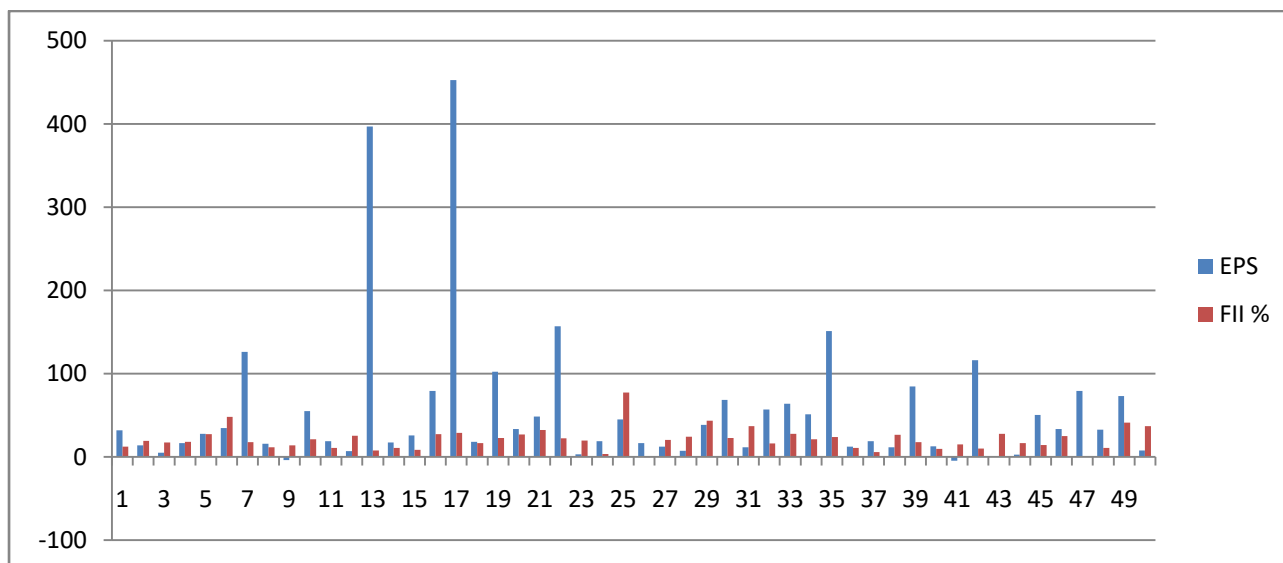


Chart 4: Correlation Coefficient between **Reported Earnings Per share** and **FII Investment in Total Paid up Share Capital of companies in %**

	<i>EPS</i>	FII Investment in Total Paid up Share Capital of companies in %
EPS	1	
FII %	0.005723011	1

Independent variable EPS is having positive correlation with the dependent variable of FII Investment in Total Paid up Share Capital of companies in % but the correlation is very less i.e. only 0.0057 which again proves that it is not having good correlation with Earning Per Share of the company. Hence for this independent variable it can be said that Foreign investors are not least concerned about Earning Per Share of the company.

t test is also to be applied to find out the correlation between the population of the variables. Hence to test the t test hypothesis is to be framed, that is

Ho : $\delta = 0$ (Earning Per Share and FII has no correlation)

H1 : $\delta \neq 0$ (Earning Per Share and FII has correlation)

To test t formula used is

$$t \text{ cal} = r \sqrt{\frac{n-2}{1-r^2}}$$

Rejection criteria is Reject Ho if $t \text{ cal} < t_{n-2, \alpha/2}$

Here $n=50, \alpha = 0.1$

$t_{48, 0.05} = -1.68$ tabulated value

$t \text{ cal}$ value is 0.039651, here $t \text{ cal} > t \text{ tab}$

hence it does not satisfy the condition of Rejection criteria i.e. $t \text{ cal} < t_{n-2, \alpha/2}$

so we accept Ho i.e. the Earning Per Share and FII Investment in Total Paid up Share Capital of companies in % has no correlation.

After it f-test is calculated to find out the significance of Regression line. For testing the significance hypothesis framed are

Ho = Regression line is not significant.

H1 = Regression line is significant.

Regression Statistics						
Multiple R	0.005723011					
R Square	3.27529E-05					
Adjusted R Square	-					
Standard Error	13.39085879					
Observations	50					
ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	0.281917143	0.281917	0.001572	0.968536	
Residual	48	8607.124764	179.3151			
Total	49	8607.406681				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	20.99924037	2.258816081	9.296569	2.61E-12	16.457586	25.54089
EPS	0.000885395	0.022329801	0.039651	0.968536	-0.0440117	0.045782

Based on the above summary

Regression equation drawn as follows :

$$y = 0.000885395x + 20.99924037$$

Here the condition applied is *if F cal > F tab*, then reject Ho and accept H1.

F tab value is 0.003973

F cal is 0.001572 which is *< than F tab* so we accept Ho which says that the regression line is not significant between two variables.

Table 5 :

Reported Return on Net Worth and FII Investment in Total Paid up Share Capital of companies in % in share capital of Nifty 50 companies.

The below table shows the amount of profit company generates with the money that the equity shareholders have invested in Rs and FII Investment in Total Paid up Share Capital of companies in %

Company's name	RONW	FII Investment in Total Paid up Share Capital of companies in %	Company's name	RONW	FII Investment in Total Paid up Share Capital of companies in %
ACC LTD	7	12.16	ICICI	11.19	0.07
ADANI PORTS	20.85	19.13	ITC LTD	29.94	20.45
AMBUJA CEMENTS	7.83	17.4	IDEA CELLULAR	10.76	24.2
ASIAN PAINTS	32.18	18.02	INDUSLAND BANK	13.21	43.3
AUROBINDO PHARMA	23.78	27.4	INFOSYS	27.61	22.65
AXIS BANK	15.46	48.05	KOTAK MAHINDRA	8.72	36.85
BAJAJ AUTO	29.71	17.78	L & T	13.04	16.25
BOB	-13.42	11.45	LUPIN	24.88	27.52
BHEL	-2.76	13.95	MAHINDRA AND MAHINDRA	14.59	21.27
BPCL	27.36	21.13	MARUTI SUZ	16.92	23.95
BHARATI AIRTEL	8.93	10.76	NTPC	11.53	10.75
BHARATI INFRATEL	7.12	25.52	ONGC	19.68	5.6
BOSCH	15.03	7.69	PGCIL	14.1	26.49
CIPLA	11.33	10.7	RELIANCE IND	11.41	17.55
COAL LTD	105.21	8.52	SBI	6.89	9.52
DR. REDDY	11.67	27.42	SUN PHARMA	-4.99	15.09
EICHER	57.18	28.86	TCS	38.87	10.163
GAIL LTD	7.51	16.35	TATA MOTORS	1.04	27.62
GRASIM IND	7.7	22.83	TATA POWER	4.88	16.58
HCL TECH	22	26.94	TATA STEEL	6.95	14.36
HDFC BANK	16.91	32.21	TECH MAHINDRA	23.75	25.04
HERO MOTO	39.42	22.31	ULTRA TECH CEMENT	10.48	0.84
HINDALCO	1.63	19.51	WIPRO	19.79	10.94
HINDUSTAN UNILEVER	110.73	3.61	YES BANK	18.41	41.25
HOUSING DEV	20.81	77.4	ZEE ENTERTAINMENT	24.42	37

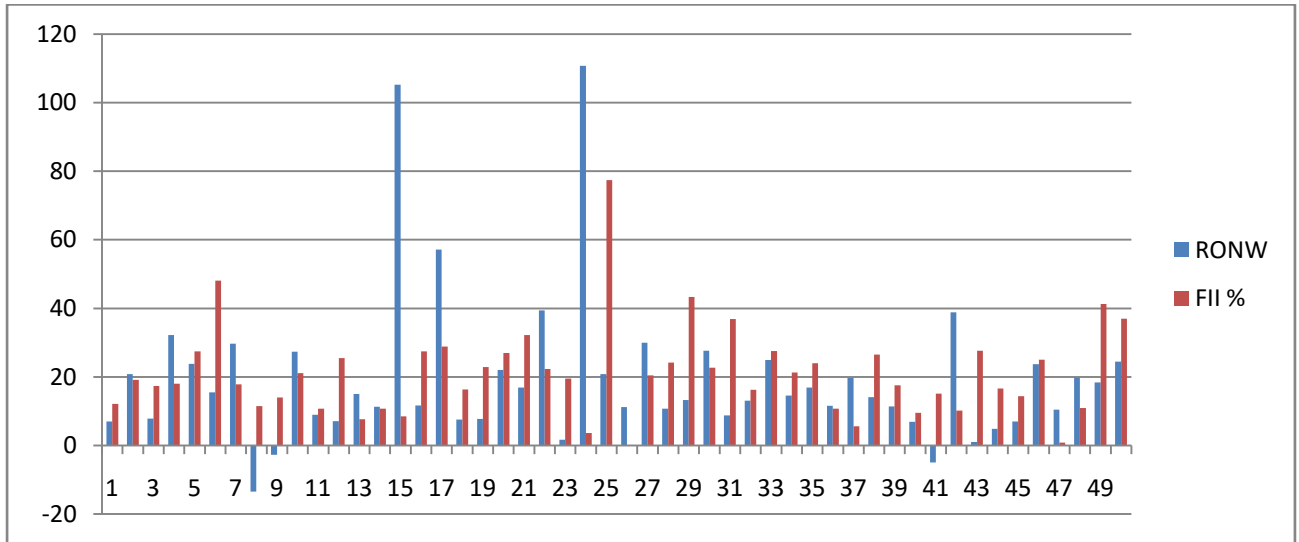


Chart 5: Correlation Coefficient between **Reported Return on Net Worth** and FII Investment in Total Paid up Share Capital of companies in %

	RONW	FII Investment in Total Paid up Share Capital of companies in %
RONW	1	
FII %	-0.0889	1

From the above data and correlation coefficient it can be said that again dependent variable is negatively correlated with the independent variable i.e. Return on Net Worth. Return on Net worth is considered as one of the tool for stock selection but here it shows that Foreign investors are least bothered about RONW because the data shows the where RONW is negative than also there is a good investment like BOB and BHEL while even if RONW is very good of COAL Ltd and Hindustan Unilever, than also FII Investment in Total Paid up Share Capital of companies in % is very less. So this brings a negative correlation between this two variables.

t test is also to be applied to find out the correlation between the population of the variables. Hence to test the t test hypothesis is to be framed, that is

Ho : $\delta = 0$ (RONW and FII has no correlation)

H1 : $\delta \neq 0$ (RONW and FII has correlation)

To test t formula used is

$$t_{cal} = r \sqrt{\frac{n-2}{1-r^2}}$$

Rejection criteria is Reject Ho if $t_{cal} < t_{n-2, \alpha/2}$

Here $n=50, \alpha = 0.1$

$t_{48, 0.05} = -1.68$ tabulated value

t_{cal} value is -0.61837 , here $t_{cal} > t_{tab}$

hence it does not satisfy the condition of Rejection criteria i.e. $t_{cal} < t_{n-2, \alpha/2}$

so we accept Ho i.e. the Return on Net Worth and FII Investment in Total Paid up Share Capital of companies in % has no correlation.

After it f-test is calculated to find out the significance of Regression line. For testing the significance hypothesis framed are

Ho = Regression line is not significant.

H1 = Regression line is significant.

SUMMARY OUTPUT	
<i>Regression Statistics</i>	
Multiple R	0.0889
R Square	0.0079
Adjusted R Square	-0.0128
Standard Error	13.3381
Observations	50.0000

ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1.0000	68.0202	68.0202	0.3823	0.5393	
Residual	48.0000	8539.3864	177.9039			
Total	49.0000	8607.4067				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	22.0919	2.5314	8.7271	0.0000	17.0022	27.1817
RONW	-0.0539	0.0871	-0.6183	0.5393	-0.2290	0.1213

Based on the above summary

Regression equation drawn as follows :

$$y = -0.0539x + 22.0919$$

Here the condition applied is if $F_{cal} > F_{tab}$, then reject H_0 and accept H_1 .

F tab value is 0.003973

F cal is 0.3823 which is > than F tab so we reject H_0 and accept H_1 which says that the regression line is significant between two variables.

Table 6 :

Relation of Current Ratio and FII Investment in Total Paid up Share Capital of companies in % in share capital of Nifty 50 companies.

The below table shows the current ratio of a company, which shows the relationships of Current Assets and Current liabilities of a company, it's a ratio between Current Assets and Current Liability and FII Investment in Total Paid up Share Capital of companies in %.

Company's name	CURRENT RATION	FII Investment in Total Paid up Share Capital of companies in %	Company's name	CURRENT RATION	FII Investment in Total Paid up Share Capital of companies in %
ACC LTD	0.82	12.16	ICICI	1.66	0.07
ADANI PORTS	2.2	19.13	ITC LTD	1.21	20.45
AMBUJA CEMENTS	0.97	17.4	IDEA CELLULAR	0.33	24.2
ASIAN PAINTS	0.95	18.02	INDUSLAND BANK	1.26	43.3
AUROBIND O PHARMA	3.36	27.4	INFOSYS	3.36	22.65
AXIS BANK	1.89	48.05	KOTAK MAHINDRA	1.14	36.85
BAJAJ AUTO	1.27	17.78	L & T	1.47	16.25

BOB	0.05	11.45	LUPIN	3.36	27.52
BHEL	1.84	13.95	MAHINDRA AND MAHINDRA	1.04	21.27
BPCL	0.77	21.13	MARUTI SUZ	0.63	23.95
BHARATI AIRTEL	0.66	10.76	NTPC	1.22	10.75
BHARATI INFRATEL	1.7	25.52	ONGC	0.87	5.6
BOSCH	2.03	7.69	PGCIL	0.53	26.49
CIPLA	2.65	10.7	RELIANCE IND	0.53	17.55
COAL LTD	1.75	8.52	SBI	0.87	9.52
DR. REDDY	3.01	27.42	SUN PHARMA	1.06	15.09
EICHER	0.46	28.86	TCS	2.27	10.163
GAIL LTD	0.98	16.35	TATA MOTORS	0.71	27.62
GRASIM IND	1.32	22.83	TATA POWER	1.68	16.58
HCL TECH	3.75	26.94	TATA STEEL	0.64	14.36
HDFC BANK	1.04	32.21	TECH MAHINDRA	2.26	25.04
HERO MOTO	0.82	22.31	ULTRA TECH CEMENT	6.71	0.84
HINDALCO	1.68	19.51	WIPRO	3.13	10.94
HINDUSTAN UNILEVER	0.75	3.61	YES BANK	1.18	41.25
HOUSING DEV	2.62	77.4	ZEE ENTERTAINMENT	3.23	37

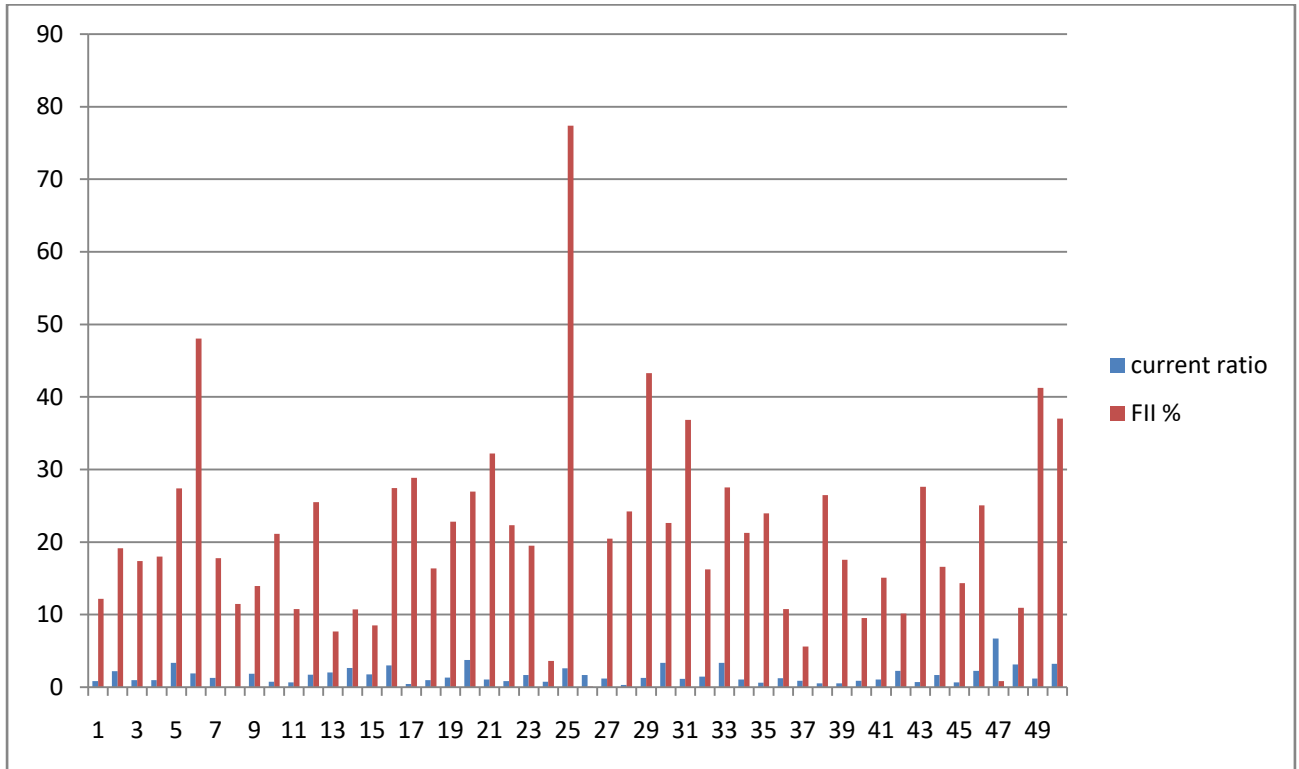


Chart 6:

Correlation Coefficient between Current Ratio and FII Investment in Total Paid up Share Capital of companies in % in share capital of Nifty 50 companies.

	<i>CURRENT RATIO</i>	FII Investment in Total Paid up Share Capital of companies in %
CURRENT RATIO	1	
FII %	0.033938	1

From the above data and correlation coefficient it can be said that dependent variable FII Investment in Total Paid up Share Capital of companies in % is positively correlated with the independent variable i.e. Current Ratio. Current Ratio is considered as one of the tool for stock selection but here it shows that foreign investors are bothered about Current Ratio. But here it can be said that Current Ratio is not fluctuating but compare to Current Ratio FII investment is seem to be having high fluctuations. Comparing the data of Housing Development and Finance company where FII is highest but Current Ratio is not very high, while the other company like Ultratech cement having high Current Ratio

is not having even 1% of the FII investment in its share capital. Hence such imbalance bring positive correlation but a poor correlation.

t test is also to be applied to find out the correlation between the population of the variables. Hence to test the t test hypothesis is to be framed, that is

Ho : $\delta = 0$ (Current Ratio and FII has no correlation)

H1 : $\delta \neq 0$ (Current Ratio and FII has correlation)

To test t formula used is

$$t_{cal} = r \sqrt{\frac{n-2}{1-r^2}}$$

Rejection criteria is Reject Ho *if* $t_{cal} < t_{n-2, \alpha/2}$

Here $n=50$, $\alpha = 0.1$

$t_{48, 0.05} = -1.68$ tabulated value

t_{cal} value is 0.235265, here $t_{cal} > t_{tab}$

Hence it does not satisfy the condition of Rejection criteria i.e. $t_{cal} < t_{n-2, \alpha/2}$

So we accept Ho i.e. the Current Ratio and FII Investment in Total Paid up Share Capital of companies in % has no correlation.

After it f-test is calculated to find out the significance of Regression line. For testing the significance hypothesis framed are

Ho = Regression line is not significant.

H1 = Regression line is significant.

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R	0.033938					
R Square	0.001152					
Adjusted R Square	-0.01966					
Standard Error	13.38336					
Observations	50					
ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	9.9137617	9.913762	0.055349	0.815005	
Residual	48	8597.4929	179.1144			
Total	49	8607.4067				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	20.42734	3.2470619	6.291024	8.99E-08	13.89869	26.956
Current Ratio	0.379922	1.6148818	0.235263	0.815005	-2.86702	3.62686

Based on the above summary

Regression equation drawn as follows :

$$y = 0.379922x + 20.42734$$

Here the condition applied is if $F_{cal} > F_{tab}$, then reject H_0 and accept H_1 .

F_{tab} value is 0.003973

F_{cal} is 0.055349 which is > than F_{tab} so we reject H_0 and accept H_1 which says that the regression line is significant between two variables.

Table 6 :**Relation of Dividend Payout Ratio and FII Investment in Total Paid up Share Capital of companies in % in share capital of Nifty 50 companies.**

The below table shows the Dividend payout ratio in the % of the total earnings of the company and FII Investment in Total Paid up Share Capital of companies in %

Company's name	Dividend Payout Ratio %	FII Investment in Total Paid up Share Capital of companies in %	Company's name	Dividend Payout Ratio %	FII Investment in Total Paid up Share Capital of companies in %
ACC LTD	52.99	12.16	ICICI	29.89	0.07
ADANI PORTS	8.01	19.13	ITC LTD	69.48	20.45
AMBUJA CEMENTS	50.15	17.4	IDEA CELLULAR	8.25	24.2
ASIAN PAINTS	45.03	18.02	INDUSLAND BANK	12.79	43.3
AUROBINDO PHARMA	9.02	27.4	INFOSYS	35.28	22.65
AXIS BANK	14.48	48.05	KOTAK MAHINDRA	4.39	36.85
BAJAJ AUTO	43.57	17.78	L & T	32	16.25
BOB	21.45	11.45	LUPIN	11.71	27.52
BHEL	440.59	13.95	MAHINDRA AND MAHINDRA	23.53	21.27
BPCL	30.16	21.13	MARUTI SUZ	23.12	23.95
BHARATI AIRTEL	7.2	10.76	NTPC	26.96	10.75
BHARATI INFRATEL	43.13	25.52	ONGC	45.44	5.6
BOSCH	21.42	7.69	PGCIL	20.05	26.49
CIPLA	11.49	10.7	RELIANCE IND	11.28	17.55
COAL LTD	105.89	8.52	SBI	20.38	9.52
DR. REDDY	25.13	27.42	SUN PHARMA	1	15.09
EICHER	22.08	28.86	TCS	37.45	10.163
GAIL LTD	30.34	16.35	TATA MOTORS	26.04	27.62

GRASIM IND	22.03	22.83	TATA POWER	45.61	16.58
HCL TECH	47.56	26.94	TATA STEEL	15.85	14.36
HDFC BANK	19.53	32.21	TECH MAHINDRA	36.09	25.04
HERO MOTO	45.89	22.31	ULTRA TECH CEMENT	11.98	0.84
HINDALCO	34	19.51	WIPRO	18.3	10.94
HINDUSTAN UNILEVER	84.8	3.61	YES BANK	16.55	41.25
HOUSING DEV	37.86	77.4	ZEE ENTERTAINMENT	29.27	37

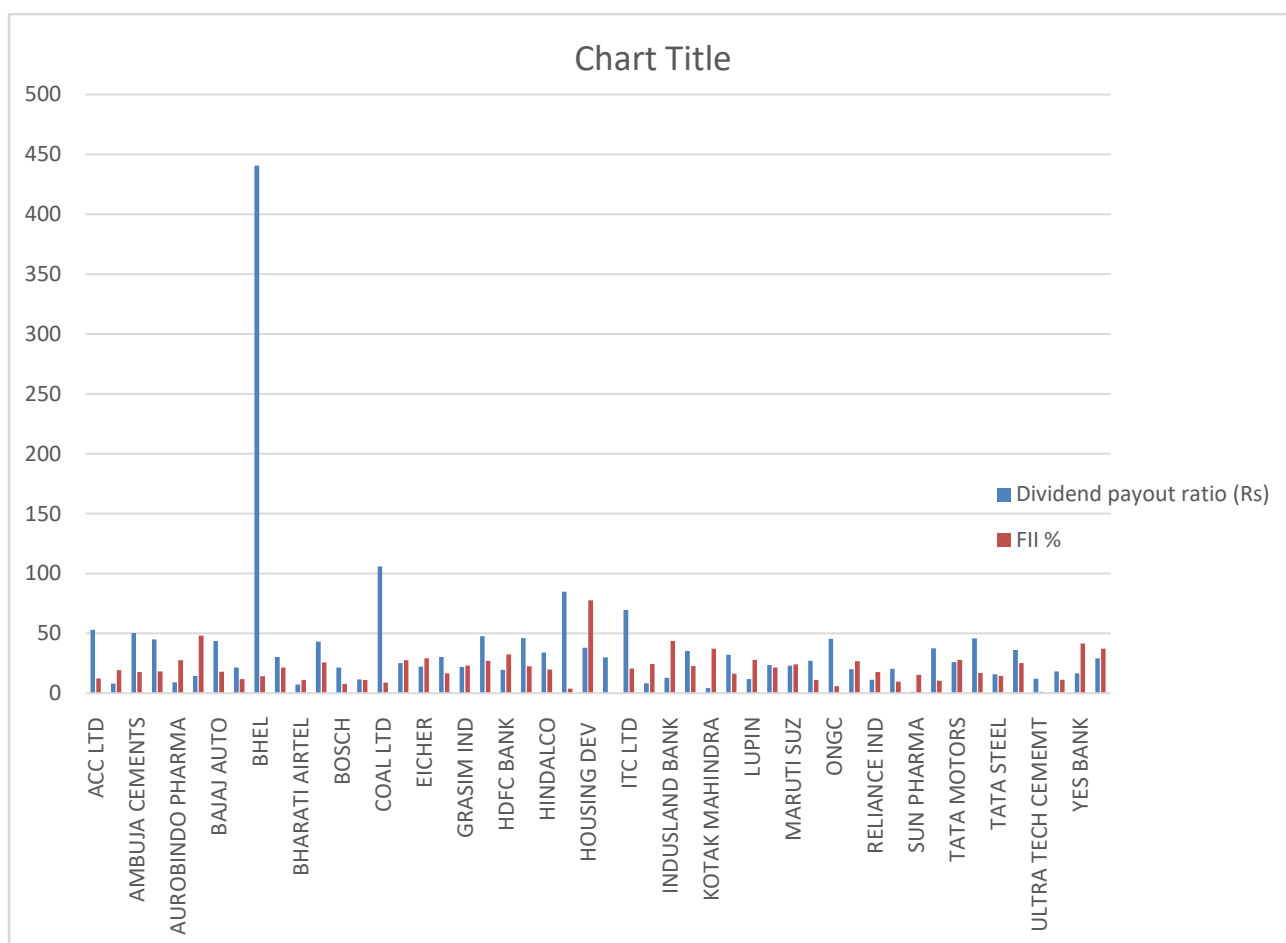


Chart 6:

Correlation Coefficient between Dividend Payout Ratio and FII Investment in Total Paid up Share Capital of companies in %

	<i>Dividend payout ratio (Rs)</i>	FII Investment in Total Paid up Share Capital of companies in %
Dividend payout ratio (Rs)	1	
FII %	-0.13704	1

From the above data and correlation coefficient it can be said that dependent variable FII investment is negatively correlated with the independent variable i.e. Dividend Payout Ratio. Dividend Payout Ratio is considered as one of the tool for stock selection but here it shows that Foreign investors are not bothered about Dividend Payout Ratio. But here it can be said that Dividend Payout Ratio is fluctuating but compare to Dividend Payout Ratio FII investment is seem to be having high fluctuations. Comparing the data of BHEL company where FII is not very high but Dividend Payout Ratio is maximum, while the other company like Housing Development and Finance Company having maximum FII investment but its Dividend Payout Ratio is not very high . This shows negatively correlation between both the variables.

t test is also to be applied to find out the correlation between the population of the variables. Hence to test the t test hypothesis is to be framed, that is

Ho : $\delta = 0$ (Dividend Payout Ratio and FII has no correlation)

H1 : $\delta \neq 0$ (Dividend Payout Ratio and FII has correlation)

To test t formula used is

$$t\text{ cal} = r \sqrt{\frac{n-2}{1-r^2}}$$

Rejection criteria is Reject Ho if $t\text{ cal} < t_{n-2, \infty/2}$

Here $n=50, \infty = 0.1$

$t_{48, 0.05} = -1.68$ tabulated value

t cal value is -0.95848, here t cal > t tab

Hence it does not satisfy the condition of Rejection criteria i.e. $t\text{ cal} < t_{n-2, \infty/2}$

So we accept H0 i.e. the Dividend Payout Ratio and FII Investment in Total Paid up Share Capital of companies in % has no correlation.

After it *f-test* is calculated to find out the significance of Regression line. For testing the significance hypothesis framed are

Ho = Regression line is not significant.

H1 = Regression line is significant.

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R	0.137044					
R Square	0.018781					
Adjusted R Square	-0.00166					
Standard Error	13.26473					
Observations	50					
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	161.6573	161.6573	0.918752	0.342606	
Residual	48	8445.749	175.9539			
Total	49	8607.407				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	22.16273	2.207131	10.04142	2.21E-13	17.725	26.60046
Dividend payout ratio (Rs)	-0.02954	0.030822	-0.95852	0.342606	-0.09152	0.032429

Based on the above summary

Regression equation drawn as follows :

$$y = -0.02954x + 22.16273$$

Here the condition applied is if $F_{cal} > F_{tab}$, then reject Ho and accept H1.

F tab value is 0.003973

F cal is 0.342606 which is > than F tab so we reject Ho and accept H1 which says that the regression line is significant between two variables.

MULTIPLE CORRELATION COEFFICIENT:

Firstly data's are arranged by applying the tool correlation coefficient. The relation between two variables are analysed. There are five independent variable i.e. Corporate Governance score, Earning Per Share, Return on Net Worth, Current Ratio and Dividend Payout Ratio and one Independent Variable i.e. FII Investment in Total Paid up Share Capital of companies in % in that company. Their relation of each independent variable with dependent variable are hereby analysed by separately by applying correlation coefficient technique.

Table 7 :

Correlation Coefficient between Corporate Governance, Earning Per Share, Return on Net Worth, Return on Long Term Fund with FII Investment in Total Paid up Share Capital of companies in %.

	<i>CG SCORE</i>	<i>EPS</i>	<i>RONW</i>	<i>Current Ratio</i>	<i>FII Investment in Total Paid up Share Capital of companies in %</i>	<i>Dividend payout ratio (Rs)</i>
CG SCORE	1					
EPS	0.122703	1				
RONW	-0.093829	0.22550014	1			
Current Ratio	-0.003531	-0.023085685	0.017808408	1		
FII Investment in Total Paid up Share Capital of companies in %	-0.086558	0.005723011	-0.088896144	0.033937752	1	
Dividend payout ratio (Rs)	0.044253	-0.120264895	0.079809407	-0.00298652	-0.137044471	1

The Correlation between CG Score and FII Investment in Total Paid up Share Capital of companies in % (r_1) = -0.086558, which shows that there is a negative correlation between this two variable. The Correlation between Earning Per Share and FII Investment in Total Paid up Share Capital of companies in % (r_2) = 0.005723011, which shows that there is a positive correlation between this two variable. The Correlation between Return on Net Worth and FII Investment in Total Paid up Share Capital of companies in % (r_3) = -0.088896144, which shows that there is a negative correlation between this two variable. The Correlation between FII Investment in Total Paid up Share Capital of companies in % and Current Ratio (r_4) = 0.033937752 which shows that there is a positive correlation between this two variable and the correlation between FII Investment in Total Paid up Share Capital of companies in % and Dividend Payout Ratio (r_5) = -0.137044471 which shows again it is having a negative correlation. So it can be concluded that only EPS and Current Ratio is positively correlated and other three are negatively correlated.

Here if all five correlation are compared it can be said that CG score has not a good correlation with FII investment compared to other four variable, that says FII investment do consider other variable compared to CG at the time of investments.

Z-test

Z-test will be applied to find out which independent variable has more impact on dependent variable i.e. which independent variable has more closely linearly related. In this test

ρ_1 = Population correlation between Corporate Governance Score and FII investments

ρ_2 = Population correlation between Earning Per Share and FII investments

ρ_3 = Population correlation between Return on Net Worth and FII investments

ρ_4 = Population correlation between Current Ratio and FII investments

ρ_5 = Population correlation between Dividend Payout Ratio and FII investments

The hypothesis framed for testing Z-test is

$H_0 = \rho_1 \leq \rho_2$

$H_1 = \rho_1 > \rho_2$

Rejection Criteria is *if $Z_{cal} > Z_{tab}$ than we reject H_0 and accept H_1*

1. Relation between Corporate Governance and Earning Per share

Z_1 is for correlation of Corporate Governance score and Z_2 is for correlation of Earning Per Share.

$Z_1 = -0.08656$ and $Z_2 = 0.005723011$, than Z is calculated by applying the following formula.

$$Z_{cal} = \frac{Z_1 - Z_2}{\sqrt{\frac{1}{n_1-3} + \frac{1}{n_2-3}}}$$

Z tabulated at 5 % level of significance is 1.65 and Z_{cal} is -2.16865 that shows that

$Z_{cal} < Z_{tab}$ hence we accept H_0 that $\rho_1 \leq \rho_2$, hence it shows that Corporate Governance score is not linearly related with FII Investment in Total Paid up Share Capital of companies in % compare to Earning Per Share.

So now Earning Per Share will be compared with Return on Net worth.

2. Relation between Earning Per share and Return of Net Worth

Z2 is for correlation of Earning Per share and Z3 is for correlation of Return on Net Worth

The hypothesis framed for testing Z-test is

$$H_0 = \rho_2 \leq \rho_3$$

$$H_1 = \rho_2 > \rho_3$$

Z2 is for Earning Per Share and Z3 is for Return on Net Worth.

Z2 = 0.005723011 and Z3 = -0.0889, than Z is calculated by applying the formula.

Z tabulated at 5 % level of significance is 1.65 and *Z cal is 2.223641*, this shows that

Zcal > Z tab hence we reject H0 that $\rho_2 \leq \rho_3$, hence it shows that Earning Per share is more linearly closely related with FII Investment in Total Paid up Share Capital of companies in % than Return on Net Worth.

Now as Earning Per share is more linearly related Earning Per share is now compared with Current Ratio.

3. Relation between Earning Per share and Current Ratio

Z2 is for correlation of Earning Per share and Z4 is for correlation of Current Ratio

The hypothesis framed for testing Z-test is

$$H_0 = \rho_2 \leq \rho_4$$

$$H_1 = \rho_2 > \rho_4$$

Z2 is for Earning Per Share and Z4 is for Current Ratio.

Z2 = 0.005723011 and Z4 = 0.033938, than Z is calculated by applying the formula.

Z tabulated at 5 % level of significance is 1.65 and *Z cal is 0.932034*, this shows that

Zcal < Z tab hence we accept H0 that $\rho_2 \leq \rho_4$, hence it shows that Current Ratio is more linearly closely related with FII Investment in Total Paid up Share Capital of companies in % than Earning Per Share.

Lastly Current Ratio is now compared with Dividend Payout Ratio.

4. Relation between Current Ratio and Dividend Payout Ratio

Z4 is for correlation of Earning Per share and Z5 is for correlation of Dividend Payout Ratio

The hypothesis framed for testing Z-test is

$$H_0 = \rho_4 \leq \rho_5$$

$$H_1 = \rho_4 > \rho_5$$

Z4 is for Current Ratio and Z5 is for Dividend Payout Ratio.

Z4 = 0.033938 and Z5 = -0.13704, than Z is calculated by applying the formula.

Z tabulated at 5 % level of significance is 1.65 and *Z cal is 4.017983*, this shows that

$Z_{cal} > Z_{tab}$ hence we reject H_0 that $\rho_2 \leq \rho_4$ and accept H_1 that $\rho_4 > \rho_5$, hence it shows that Current Ratio is more linearly closely related with FII Investment in Total Paid up Share Capital of companies in % than Earning Per Share.

Hence it can be concluded from Z test that compare to all the variables of study Current Ratio is more closely related with FII investment.

MULTIPLE REGRESSION MODEL

In order to understand the simultaneous impact of the independent variables on the dependent variables, I carried out Multiple Regression Analysis.

The model applied was

$$Y = \beta_0 + X_1\beta_1 + X_2\beta_2 + X_3\beta_3 + X_4\beta_4 + X_5\beta_5$$

Where

X1- Corporate Governance Score

X2-Return on Equity

X3-Return on Net Worth

X4-Current Ratio

X5 – Dividend Payout Ratio

Table 8 : Multiple Regression Analysis

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R	0.185759					
R Square	0.034506					
Adjusted R Square	-0.075209					
Standard Error	13.74309					
Observations	50					
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	5	297.009861	59.40197229	0.314508	0.90162	
Residual	44	8310.39681	188.872655			
Total	49	8607.40668				

		1				
	<i>Coefficient</i>	<i>Standard</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper</i>
	<i>s</i>	<i>Error</i>				<i>95%</i>
Intercept	33.86758	19.1837486 1	1.765430751	0.084431	-4.79473	72.5298 8
CG SCORE	-0.217379	0.35331257 3	- 0.615260972	0.541552	-0.92943	0.49467 5
EPS	0.003775	0.02407574 7	0.156812751	0.87611	-0.04475	0.05229 7
RONW	-0.056925	0.09353689 4	- 0.608587246	0.545927	-0.24544	0.13158 6
Current Ratio	0.397202	1.65926009	0.239384835	0.811919	-2.94682	3.74122 1
Dividend payout ratio (Rs)	-0.026386	0.03245775 6	- 0.812920492	0.420641	-0.0918	0.03902 9

The above statistics shows that **R square is 0.034506**, which says that there is a positive linear relationship between all the variables with FII Investment in Total Paid up Share Capital of companies in % but it is a very poor relationship. This shows that all variables are relatively a weak measure of FII Investment in Total Paid up Share Capital of companies in % so it can be said that other extraneous variables are having more influence on FII Investment in Total Paid up Share Capital of companies in %.

F-test

Lastly F-test is carried on to find out the multiple correlation of all the variables on the FII Investment in Total Paid up Share Capital of companies in %. Hence hypothesis framed is as follows:

H0 = There is a significant linear relationship between all the variables.

H1 = There is not a significant linear relationship between variables.

If F cal < F tab we accept H0 and if F cal > F tab we reject H0.

To test this hypothesis F-test has been applied where F cal is 0.314508 and F tab is 0.8039.

Which shows that **F cal < F tab**. So we accept null hypothesis that there is a significant linear relationship between all variables on FII Investment in Total Paid up Share Capital of companies in %, which means there is a combined impact of all variables on FII Investment in Total Paid up Share Capital of companies in %.

Conclusions :

Results of CNX Nifty 50 companies in terms of governance policies reveals that there is a fluctuation in level of governance disclosures and none of the companies achieve 100% score according to the index framed. Even Return on Equity is negative for some of the companies which can also have impact on the FII Investment in Total Paid up Share Capital of companies in %. From the correlation coefficient tool it can be concluded that there is a positive correlation of Current Ratio and Earning Per share with FII Investment in Total Paid up Share Capital of companies in % while Corporate Governance score, Dividend Payout Ratio and Return on net worth are negatively correlated with FII Investment in Total Paid up Share Capital of companies in %. But Z-test concludes that Current Ratio is more linearly correlated with FII Investment in Total Paid up Share Capital of companies in % than any other variables.

Multiple regression model proves positive linear regression of all variables on FII Investment in Total Paid up Share Capital of companies in % but it is very weak an F-Test shows that there is a significant linear relation of all variables on FII Investment in Total Paid up Share Capital of companies in % .

Hence it can be implied that Corporate Governance alone is not the sole factor for attracting FII Investment in Total Paid up Share Capital of companies in %. So it is suggested that companies if they want to increase pool of foreign investors than they are supposed to be proactive in following the norms and should also go beyond the norms prescribed by the law.

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Annexure 1: Corporate Governance Index

The Corporate Governance Index has been framed for collection of data.

	Mandatory Disclosure			name of company
1	Company's Philosophy			2
2	Board of Directors			
	a	If Chairman Is Non Executive Director		2
	b	Ratio of Non Executive Director to Total Director	if 50%	2
	c	Independent Director to Total Director		
			if Non Executive director is chairman: 1/3	2
			if Executive director is chairman : 1/2	
	d	Directorship in other company Max 10		2
	e	Chairman in other Company Max - 5		2
	f	Membership in other company Max 10		2
	g	No of Board Meetings		
			4 times in a year	
			more than 4 times in a year	2
3	Code of Conduct			2
4	Audit Committee			
	a	Chairman : Independent Director : yes		2
	b	Number of member 3 or if more than 3		2
	c	No of Non - Executive Directors 1/3		2

	d	No of Independent Directors 2/3		2
	e	audit committee meetings	4 times than 2 or if more than 3	2
	f	Presence of Chairman in AGM		2
5	Management and Discussion Analysis			2
6	CEO/CFO Certification			2
7	External Audit Certification			2
	Non-Mandatory Disclosure			
1	Shareholder's Grievance Committee			
		Chairman Non Executive Director		2
2	Whistle Blower Policy			2
3	Disclosure of Accounting Treatment			2
4	Related Party Transaction			2
5	Remuneration to directors			2
6	Disclosure of Non Compliance			2
7	Market Price			2
8	Postal Address			2
9	Shareholder's Pattern			2
10	Remuneration committee			
		Chariman is Independent Director		2
		No of Non Executive Director Min 3		2
			more than 3	2

		Presence of chairman in AGM	
			2
11	Independent directors meetings		2
12	Postal ballot		2
		Ttotal	66