

# ***THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT***

## **An Analytical Study on Institutional Investors and Firm Characteristics**

**K. Sabeena**

Assistant Professor, Department of Management Studies  
V.S.B Engineering College, Karur, Tamil Nadu, India

**S. Suganya**

Assistant Professor, Department of Management Studies  
V.S.B Engineering College, Karur, Tamil Nadu, India

### ***Abstract:***

*Foreign Institutional Investors and Domestic Institutional Investors have a significant role in Indian capital Markets. Availability of those investors capital depends on many firm specific factors other than economic development of the country. This study analysis the contribution of Institutional Investments particularly among companies included in the CNX 500 index. The Present study considers various firm characteristics such as promoter's shareholding, firm size, dividend yield, cash position, firm size, and turnover, price to book ratio, debt to market capitalization, systematic risk, and export sales for the period 2001 to 2014. The various tools used to find out the relationship between Institutional Investors and Firm Characteristics are Descriptive Statistics, Regression Analysis, Correlation analysis and Panel Data Regression Analysis. This study examines the Firm Characteristics and Financial variables which attracts the Institutional Investors flows.*

***Keywords:*** Foreign institutional investors, domestic institutional investors, firm characteristics

### **1. Introduction**

"Indian stock market dances to the tunes of FII's. If the music is on, the stock market dances with high jumps. When music stops, the market goes down and sits with little motion, till some music is on again"

India started permitting outside investments only in the 1990s. Foreign investments are classified into two categories: foreign direct investment (FDI) and foreign portfolio investment (FPI). For making portfolio investment in India, one should be registered either as a foreign institutional investor (FII) or as one of the sub-accounts of one of the registered FIIs. India's markets are highly influenced by foreign institutional investor (FII) activity. This study find out the relationship between Foreign Institutional Investors' Investment in a firm and its size, Promoters Shareholding, Dividend Yield, Earnings Per share, Export sales, Turnover, Cash Position, Current Ratio, Systematic Risk, Price to Book Ratio and Debt to Market capitalization using PROWESS data as of 2001-2013. This study includes those firm characteristics which are found to be significant determinants of FII's flows by the earlier studies for analysis.

### **2. Review of Literature**

K. Lakshmi (2011) analyzed the inter-firm differences in the foreign institutional investors' portfolio investment with respect to the firm characteristics for a sample of Indian firms. P. Krishna Prasanna (2008) examined the relationship between foreign institutional investment and firm specific characteristics in terms of ownership structure, financial performance and stock performance. Magnus Dahlquist and Goran Robertson (2003) analyzed foreign ownership and firm characteristics for the Swedish market. They characterize aggregated the foreign ownership using firm specific attributes, such as size, leverage, and current ratio. They further consider various measures of risk as well as the return on the firm's shares on the stock market. Ferreira and Matos (2006) find that FIIs choice of firms for investment is weighted more by firm level characteristics rather than country level characteristics. Kang and Stulz (1996) document that foreign investors held more shares in firms in manufacturing industries that are large with good accounting performance, low unsystematic risk, and low leverage. Aggarwal, Klapper, and Wysocki (2005) observed that foreign investors preferred the companies with better corporate Governance. Liljebloom and Loflund (2005) report that foreign investment flows are significantly related to investment barriers measured by dividend yield, liquidity and firm size and other profitability and risk related variables. Gordon and Gupta (2003) find that combinations of global, regional and domestic macroeconomic factors are important in determining FII flows to India. They found that both domestic and external variables are influencing FII flows to India. Don Bredin, Ningyue Liu (2011) studied the investment behavior of foreign institutional investors operating in China. A detailed analysis of foreign institutional investors is examined, along with a comparison of domestic Chinese investors.

### 1.1. Research Gap

In recent past, no studies are conducted to analyze the firm specific characteristics of foreign portfolio flows to Indian companies. The existing studies are conducted for shorter period of time. This study considers the data, for thirteen years, (2001-2013). Most of the studies limited themselves with either concentrating on FII's or DII's and not the Institutional Investors as a whole. These are the gaps identified in this context which motivates me to fulfill that gap left out by the existing studies.

### 1.2. Statement of Problem

- ✓ FII's investments are not uniformly distributed
- ✓ Foreign Institutional Investors made considerations about firm specific attributes before making investments
- ✓ To identify which characteristics have more influence in the FII's investment Decision.
- ✓ Help the small and retail investors to take more rational and strategically correct decision.
- ✓ Beneficial to firms in understanding what needs to be done to attract Institutional investors.

### 1.3. Objectives of the Study

- ✓ To examine the Firm Characteristics and Financial Variables which attracts FII flows.
- ✓ To study the Firm Characteristics and Financial Variables which attracts DII flows.
- ✓ To analyze the preferences of Institutional Investors in equity investment of a firm.

### 1.4. Limitations of the Study

- ✓ The data of CNX 500 alone is taken, the actual fact is FII's may also concentrates other company stocks for their Investments.
- ✓ This study restricted to eleven Firm specific attributes.

### 1.5. Research Methodology

- The research design used for this study is Analytical Research Design.
- The samples taken for analysis are 500 companies included in CNX 500 about promoters' shareholdings, Market Capitalization; financial variables for those companies are collected from the PROWESS package.
- The variables taken for analysis for finding the relationship from the year 2001 to 2013.
- The variables used for this study are Promoters shareholdings, Firm Size, Export Sales, Earnings per share, Dividend Yield, Turnover, Cash Position, Price to book ratio, Current Ratio, Systematic Risk, Debt to market Capitalization.
- To find out the relationship between FII's Shareholding and Firm Characteristics the following tools are used,
  1. Descriptive Statistics
  2. Regression Analysis
  3. Correlation Analysis

## 3. Analysis And Interpretation

### 3.1. Descriptive Statistics

Descriptive analysis is done for ownership variables and financial variables separately.

	Minimum	Maximum	Mean	Std. Deviation	Variance
<b>FII</b>	.00	73.67	13.1248	11.37736	129.444
<b>Promoters Shareholding</b>	.00	99.33	53.2334	18.87744	356.358
<b>DII</b>	.00	44.94	8.1031	7.14682	51.077
<b>Public Shareholding</b>	.31	69.37	13.9645	10.91543	119.147

Table 1: Descriptive Statistics for Ownership Variables

From those results around 13 % of the capital comes from the Foreign Institutional Investors on an average among those CNX 500 companies. The Promoters contribute 53 %, the Domestic Institutional Investors provide 8% and the Public Shareholding is 14 %. The remaining shareholdings are from other sources like Government and Non promoters.

	Minimum	Maximum	Mean	Std. Deviation	Variance
EPS	-118.65	1891.49	24.6386	93.45589	8734.003
Dividend Yield	.00	139.37	2.1952	6.65624	44.305
Current Ratio	.00	9.67	1.4098	1.20539	1.453
Price to Book Ratio	.00	142.00	3.0756	12.26301	150.381
Export Sales	.00	287.50	21.5449	31.10576	967.568
Turnover	.01	4530.92	143.5022	331.19742	109691.729
Cash Position	.00	1148201.70	20716.3347	84603.22635	7157705908.315
Firm size	644.99	4254455.11	130243.2442	360564.32740	130006634194.369
Systematic Risk	.17	2.45	1.1034	.42199	.178
Debt to Market Capitalization	.00	110.15	3.7216	9.30142	86.516

Table 2: Descriptive Statistics for Independent Variables

The maximum Earning Per Share value among those companies is Rs.1891.49. Also the investors enjoy Dividend up to Rs.139 from those companies. The largest firm in the Sample enjoys a market capitalization of Rs.4254455.11 million while the smallest firm is valued at Rs. 645 million. The Debt to Market capitalization have the highest deviation among other variables other than cash position and Firm size. Systematic Risk have the very less deviation (0.42199) than other variables.

### 3.2. Regression Analysis

#### ➤ Hypothesis

→ H0: There is no significant relationship between FII's Shareholding and Firm Characteristics.

→ H1: There is a significant relationship between FII's Shareholding and Firm characteristics.

### 3.3. Variables Used for This Analysis

- Dependent Variable: FII's Shareholding
- Independent Variables : Promoters shareholding, Dividend Yield, Current Ratio, Firm Size, Earning Per Share, Price to Book Ratio, Export sales, Turnover, Cash, Systematic Risk and Debt to market capitalization

#### 3.3.1. Regression Analysis for the Period 2001- 2013

$FII's\ Shareholding = a + b \{PS\} + c \{DY\} + d \{CR\} + e \{EPS\} + f \{FS\} + g \{PTBR\} + h \{EXS\} + i\{TO\} + j \{Cash\} + k \{SR\} + j \{DTMC\}$

Year	Influencing Variables	Coefficient	Constant
2001	1. Promoter Shareholding	-0.173	114.588
	2. Market Capitalization	0.204	
2002	1. Promoter Shareholding	-0.205	21.944
	2. Market Capitalization	0.214	
	3. Cash	-0.237	
2003	1. Promoters Shareholding	-0.235	577.152
	2. Turnover	-4.024	
	3. Market Capitalization	0.213	
2004	1. Promoter Shareholding	-0.263	-1424.518
	2. Export Sales	107.966	
	3. Cash	0.139	
	4. Market Capitalization	0.243	
2005	1. Promoter Shareholding	-0.228	565.057
	2. Dividend Yield	-352.910	
	3. Market Capitalization	0.253	
2006	1. Promoter shareholding	-0.282	-2416.112
	2. Market Capitalization	0.314	
2007	1. Promoter Shareholding	-0.238	-429.363
	2. Cash	-0.525	
	3. Market Capitalization	0.313	
2008	1. Promoter Shareholding	-0.184	-2009.338
	2. Turnover	10.637	
	3. Cash	0.396	
	4. Market Capitalization	0.278	
2009	1. Promoter Shareholding	-0.302	-937.865
	2. Export Sales	194.856	
	3. Market Capitalization	0.294	
2010	1. Promoter Shareholding	-0.254	-1049.318
	2. Export Sales	191.410	
	3. Market Capitalization	0.265	
2011	1. Promoter Shareholding	-0.256	-1710.528
	2. Export Sales	172.892	
	3. Turnover	26.988	
	4. Market Capitalization	0.276	
2012	1. Promoter Shareholding	-0.267	4422.756
	2. Export Sales	238.986	
	3. Turnover	27.198	
	4. Market Capitalization	0.281	
2013	1. Promoter Shareholding	-0.249	-1686.932
	2. Export Sales	302.359	
	3. Turnover	21.628	
	4. Market Capitalization	0.313	

Table 3: Regression analysis for the period 2001- 2013

From this Regression Analysis we can understand that the following variables are the most Influencing factors of Foreign Institutional Investors Shareholding.

1. Promoters Shareholding 2. Export Sales 3. Turnover 4. Market capitalization

How much those variables are influencing the FII's shareholding is explained by the correlation analysis. The relationship among those variables is also explained by that analysis.

### 3.4. Correlation Analysis

Correlation Analysis measures the relationship between FII's Shareholding and other Firm Characteristics.

S. NO	Independent	Variables	FII Shareholding
1	Promoter Shareholding	Pearson Correlation	-.995**
		Sig. (2-tailed)	.000
2	Earnings Per Share	Pearson Correlation	.318
		Sig. (2-tailed)	.443
3	Dividend Yield	Pearson Correlation	.357
		Sig. (2-tailed)	.386
4	Current Ratio	Pearson Correlation	-.189
		Sig. (2-tailed)	.654
5	Price to Book Ratio	Pearson Correlation	-.572
		Sig. (2-tailed)	.138
6	Export Sales	Pearson Correlation	.806*
		Sig. (2-tailed)	.016
7	Turnover	Pearson Correlation	.942**
		Sig. (2-tailed)	.000
8	Cash Position	Pearson Correlation	.652
		Sig. (2-tailed)	.080
9	Firm Size	Pearson Correlation	.972**
		Sig. (2-tailed)	.000
10	Systematic Risk	Pearson Correlation	-.213
		Sig. (2-tailed)	.613
11	Debt to Market Capitalization	Pearson Correlation	.010
		Sig. (2-tailed)	.981

Table: 4 Correlation Analysis for the year 2013

\* Correlation is significant at the 0.05 level (2-tailed). \*\*. Correlation is significant at the 0.01 level (2-tailed).

There is no significant relationship between FII's shareholding and Promoter's Shareholding, Export sales, turnover, Systematic Risk. But there is a significant difference between FII's Shareholding and Dividend Yield, Current Ratio, EPS, Price to Book Ratio, Debt to Market Capitalization, Firm Size, Cash Position.

### 3.5. Correlation between FII and DII

The Samples taken for analysis are 500 companies included in CNX 500 for the year 2013 from the CMIE PROWESS Database.

#### ➤ Hypothesis

→ H<sub>0</sub>: There is no correlation between FII and DII

→ H<sub>1</sub>: There is a correlation between FII and DII

		FII	DII
FII	Pearson Correlation	1	.057
	Sig. (2-tailed)		.206
	N	495	493
DII	Pearson Correlation	.057	1
	Sig. (2-tailed)	.206	
	N	493	498

Table: 5 Correlations between FII and DII

Here the significant value is 0.206 > 0.05. We cannot reject null hypothesis (i.e.) we accept there is no correlation between FII's and DII's. The Pearson correlation is 0.057 which is almost zero. So there is no correlation between FII's and DII's.

## 4. Findings

### 1. Descriptive Statistics:

FII's Shareholding ranges from 0 % to 73.67 %. Mean FII's Shareholding is 13.1248, Mean Promoters Shareholding 53.2334

Maximum EPS Rs.1891.49 and Maximum Dividend Yield Rs.139.37, Maximum Market Capitalization Rs. .4254455.11 million.

2. Regression Analysis: Influencing variables – Promoters shareholding, Firm Size and Export Sales

3. Correlation Analysis:

- Negative Relation – Promoters Shareholding
- Positive Relation -- Export Sales, Turnover and Firm Size
- Moderate Relation – Cash Position
- Weak Relation -- Debt to Market capitalization, Current ratio

#### 4.1. Suggestions for Retail Investors

Institutional Investors are investing in large firms in terms of Market Capitalization and Turnover. The main driving force for investment in such firms being higher liquidity and a better return with lower Risk. The Retail Investors who are risk averter may invest in the firms having characteristics of Large Size and High Turnover. The variables like Earnings per Share, Export Sales and Cash Position are also having Marketable influence on Institutional Investors Investment Decision. The firms with higher earnings with overseas sales will help the individual Investors to get a higher return on investment with Diversified Risk.

#### 4.2. Suggestions for Firms

Institutional Investments help the firms for raising easy money for their capital needs. However to attract Foreign and Domestic Institutional Investors, the Shareholding of the firms should be widely held. (i.e.) the Shares should be distributed among various group of investors.

The higher Promoter holding does not invite Institutional Investors to invest in the firms as it creates a doubt on corporate governance and information asymmetric. So, if a firm wants to attract to Institutional Investments, it should not have higher Promoters holdings.

For diversifying the market risk, if the firm likes to add a Foreign Investments to its capital, it needs to improve on its Export Sales. The firm can easier build its brand image in overseas by delivering the quality products to the overseas market and thereby attracts the Foreign Institutional Investments willingness to invest on the firm. Apart from the suggestions mentioned above on the basis of Firm Characteristics, the suggestions are also made to the capital market regulator (SEBI) to increase the efficiency of capital market transactions in the field of clearing and settlement. This is very much essential because facilitating investment requirement will enhance the India's capital market image among the world countries which in turn receives higher Foreign Institutional Investments.

#### 4.3. Conclusion

Domestic sources for outside finance are limited in many countries. Through capital market liberalization, foreign capital has become increasingly significant source of finance. Foreign investments provide a channel through which country can have access to foreign capital. Foreign Institutional Investors have wider range of expectations when investing in firms. From this study we get that FII's are preferring firms with less concentration of Promoter's Shareholding. FII's investments are high in large cap firms with high turnover. The variables such as Earnings per share, Export Sales and cash position are the next considerations for institutional investors which have positive relationship with FII's shareholdings. The Domestic Institutional Investors additionally consider the variables such as Dividend Yield and Earnings Per Share, Systematic Risk and Debt to Market Capitalization when investing in firms. The financial variables like Systematic risk and Debt to market capitalization have weak negative relationship with FII's Shareholding. Domestic investors groups display similar portfolio preferences as compared to foreign investors. This findings leads to conclude that the preferences for investments based on characteristics such as Promoters Shareholding, Export Sales, and Firm Size is common to all the institutional investors. If firms want to attract Domestic Institutional Investors, they should additionally concentrate on Dividend Yield, Earnings Per Share, Systematic Risk and Debt to Market Capitalization

## 5. References

- i. Aggarwal. R, Klapper. L and Wysocki. P.L 2005, Portfolio preferences of foreign institutional investors, Journal of Banking and Finance, Vol. 29, pp.2929-2946.
- ii. Ahmadjian C. L. and Robbins G. E., 2005, A clash of Capitalisms: Foreign shareholders and corporate restructuring in 1990s Japan, American Sociological Review, Vol. 70(3), pp.451- 471.
- iii. Bredin. D and Liu. N 2011 Domestic and Foreign Institutional Investor Behavior in China: Financial Characteristics and Corporate Governance, International Finance Review, Emerald Group Publishing Limited, Vol 12 pp.113-143
- iv. Cho.H, Kho.K and Stulz R.M, 2005, Do domestic investors have an edge? The trading experience of foreign investors in Korea, Review of financial studies, Vol.18 (3) pp.795-829.
- v. Dahlquist. M. and Robertsson.G 2001, Direct foreign ownership, institutional investors and firm characteristics, Journal of Financial Economics, Vol. 59, pp.413-440
- vi. Ferreira, M.A. and Matos. P.P, 2007, The colors of investors' money: Which firms attract institutional investors around the world? Journal of Financial Economics.
- vii. Gordon, J. and Gupta.P, 2003, Portfolio flows into India: Does domestic fundamentals matter? IMF working paper number. Wp/03/20, International Monetary Fund.
- viii. Kang, J and Stulz R, 1997, Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan, Journal of Financial Economics, Vol.46, pp.3-28.

- ix. Lakshmi K, 2011 foreign Institutional Investors and Firm Characteristics- A study of Indian Firms, International Journal of Management, Vol.28 (4),pp 47 – 59
- x. Leuz.C, Nanda.D and Wysocki P.D, 2003, Earnings management and investor protection: An international comparison, Journal of financial economics, Vol.69, pp.505-527.
- xi. Liljeblom. E and Loflund. A. 2005, Determinants of international portfolio investment flows to a small market: empirical evidence, Journal of multinational financial management, Vol.15, pp.211-233.
- xii. Patnaik .I and Shah .A 2013,The Investment Technology of Foreign and Domestic Institutional Investors in an Emerging Market, IMF working paper number WP/13/90, International Monetary Fund.
- xiii. Prasanna, P. K. 2008, Foreign Institutional Investors: Investment Preferences in India, JOAAG, Vol. 3(2), pp. 40 - 51.
- xiv. Rai, K. and Bhanumurthy N.R, 2004, Determinants of foreign institutional investment India: The role of return, risk and inflation, Development economies, Vol.42, pp 479-493.
- xv. Yin-Hua, Y. and Woidtke. T 2005 Commitment or entrenchment? Controlling Shareholders and Board composition, Journal of Banking and Finance, Vol. 29(7), pp1857- 1885.