



The role of foreign institutional investors in promoting corporate governance in Indian Listed Companies

Pawan Kumar¹, Dr. Deepak Kumar²

¹ Research Scholar, Department of Commerce and Management, Faculty of Management, B. R. Ambedkar Bihar University, Muzaffarpur, Bihar, India

² Assistant Professor and Supervisor, L.N. Mishra College of Business Management, Bhagwanpur, Uttarakhand, India

Abstract

Corporate governance refers to the system of rules, practices and processes by which a company is directed and controlled. It plays an integral role in ensuring transparency, accountability and ethical decision making within companies. In recent years, numerous corporate scandals have highlighted the need for strong corporate governance systems. This paper aims to investigate the role of Foreign Institutional Investors (FIIs) in promoting corporate governance in Indian listed companies. FIIs are institutional investors from foreign countries who invest in Indian securities markets. They hold substantial stakes in many Indian listed companies and play a significant role as minority shareholders. As per SEBI regulations, FIIs are required to comply with stringent guidelines and disclosures regarding their shareholdings. These regulations have led to increased scrutiny and participation of FIIs in matters concerning corporate governance. The presence of FIIs has positively influenced corporate governance practices in India through various mechanisms such as proxy voting, engagement with company management and filing shareholder resolutions on critical issues like remuneration policies, related party transactions etc.

Keywords: Foreign institutional investors, corporate, transparency, accountability and decision making

Introduction

Foreign institutional investors (FIIS) play a significant role in promoting corporate governance practices in Indian listed companies. Corporate governance refers to the set of rules, processes and regulations that govern the way a company is managed and controlled. It includes the rights and responsibilities of shareholders, as well as their protection against any potential misuse of power by management. India's emergence as one of the fastest-growing economies in the world has attracted foreign investments into its stock market. FIIs are entities such as mutual funds, pension funds, hedge funds, etc., registered outside India with an intention to invest substantial amounts in securities traded on Indian exchanges^[1]. With their vast experience and expertise in international markets, FIIs bring valuable knowledge and understanding of global best practices to Indian markets. As a result, they act as catalysts for improving corporate governance standards in Indian listed companies. One way through which FIIs promote good corporate governance is by exercising their shareholder rights diligently. They actively participate in annual general meetings (AGMs) where important decisions such as election of directors and approval of financial statements take place^[2].

Literature Review

The role of foreign institutional investors (FIIs) in promoting corporate governance in Indian listed companies has been a highly discussed topic in recent years. As the country continues to attract significant amounts of foreign investment, understanding the impact and influence of FIIs on the corporate governance practices of Indian companies is crucial.

According to Narayana R Pujari, Prof. Ankita Shrivastava (2025)^[3], there has been a notable increase in FII participation in Indian stock markets since the early 2000s,

with their share reaching up to 30% by 2011. This large presence of FIIs has not only resulted in substantial capital inflow but also brought attention to their involvement in shaping the corporate landscape^[3].

Gunjan Khilwani *et al.* (2018) note that this increased scrutiny from FIIs has led to improvements in areas such as board independence, transparency, accountability and disclosure practices within Indian listed companies.

A study conducted by DR. JANKI MISTRY (2021) examined the relationship between FII ownership and corporate governance practices of Indian listed companies. The findings revealed that higher levels of FIIs significantly improve corporate governance practices, such as board independence, audit committee quality and disclosure standards^[4].

A research paper published by Bhumi Singh *et al.* (2018) analyzed the impact of FIIs on promoters' shareholding patterns and found that an increase in FII investment leads to a decrease in promoter ownership concentration. This reduction of concentrated ownership is seen as beneficial for better monitoring and improved transparency within the company.

Research Gap

Despite the growing significance of foreign institutional investors (FIIs) in the Indian stock market, there is a lack of comprehensive studies on their role in promoting corporate governance in listed companies. This research gap is particularly striking given that FIIs have become major shareholders in many Indian firms; with ownership stakes exceeding 10% in some cases. One key reason for this research gap is the limited availability of data on FII ownership and its impact on corporate governance practices. The disclosure requirements for FIIs are often not as stringent as those for domestic institutional investors, making it difficult to gather reliable information on their shareholding patterns and voting behaviour.

What are Foreign Institutional Investors (FIIs) and their role in India?

Foreign Institutional Investors (FIIs) are a crucial aspect of the Indian economy and play a significant role in promoting corporate governance in Indian listed companies. In simple terms, FIIs can be defined as institutional investors who invest in financial assets such as stocks, bonds, and mutual funds of a country other than their own.

The Indian economy has witnessed a considerable influx of FIIs over the years, owing to its growth potential and lucrative investment opportunities. These investments from FIIs have not only contributed to the development of the stock market but also aided in accelerating economic growth by providing much-needed capital infusion. As per data from the Securities and Exchange Board of India (SEBI), FIIs accounted for around 21% of total investments in the Indian stock market in 2020 [5].

Now, let's take a closer look at the role that FIIs play in promoting corporate governance in Indian listed companies:

- **Source of Capital:** One of the primary roles played by FIIs is that they act as an important source of capital for companies. They invest large sums of money into various sectors, which helps businesses raise funds necessary for expansion and growth. The availability of these resources allows companies to focus on improving their operations and adhering to corporate governance principles without worrying about financial constraints.
- **Brings Global Standards:** Foreign Institutional Investors bring with them international standards and practices related to disclosure norms, risk management strategies, shareholder rights, etc., thus elevating corporate governance standards in India. Their presence encourages local businesses to adopt best practices followed globally if they want to attract foreign investments.
- **Boosts Corporate Governance Practices:** By holding significant stakes in companies' shares, FIIs have a considerable say when it comes to decision-making processes within organizations. This ensures that any decisions taken by top-level management are strategic and not influenced by individual interests or corruption.
- **Diversification:** Including foreign institutional investors diversifies the shareholder base for companies leading to a more balanced ownership structure. This makes it difficult for any individual or group to manipulate the company's direction, thus promoting transparency and good corporate governance practices.

The Impact of FIIs on Indian Stock Market

Foreign Institutional Investors (FIIs) play a crucial role in the Indian stock market. They are an essential source of investment for companies listed on the Indian stock exchanges and have a significant impact on the overall performance and stability of the market.

One of the most notable impacts of FIIs on the Indian stock market is their contribution to liquidity. As they bring in large amounts of capital, they increase the trading volume, creating more buying and selling opportunities for other investors. This, in turn, leads to improved liquidity and price efficiency in the market.

Another significant impact of FIIs is their influence on price movements. As these investors often hold a large number of shares in companies, their buying or selling activities can cause substantial shifts in share prices. This phenomenon can be seen during periods when there is a surge or withdrawal of FII investments from India's equity markets. The change in FII investment trends can also affect market sentiment and contribute to overall volatility [6].

Furthermore, FIIs' participation has also led to increased competition among domestic institutions and individual investors. With access to more information and advanced technology compared to local players, FIIs have become important competitors, contributing to making India's stock market more dynamic and efficient.

How FIIs Promote Corporate Governance in Indian Listed Companies?

Foreign Institutional Investors (FIIs) play a significant role in promoting corporate governance in Indian listed companies. They bring valuable expertise, resources, and global best practices that contribute to the overall improvement of corporate governance standards in the country.

One of the primary ways in which FIIs promote corporate governance is through their active involvement in company decision-making processes. As shareholders, they have a vested interest in ensuring that the company follows ethical and transparent practices for sustainable growth. Therefore, they actively participate in shareholder meetings and exercise their voting rights to voice their concerns regarding any governance issues.

FIIs also serve as a bridge between domestic companies and international markets. With their vast experience and knowledge of global best practices, they can help Indian listed companies benchmark against international standards of corporate governance. Through regular engagement with these companies, FIIs can guide them on various aspects such as board structure, executive compensation policies, risk management strategies, etc.

Moreover, FIIs often conduct thorough due diligence before investing in a company to ensure its sound financial standing and compliance with legal and regulatory requirements. This process not only helps them make informed investment decisions but also signals to the market that good corporate governance is crucial for attracting foreign investments.

Furthermore, FIIs can influence corporate behaviour by setting expectations for high standards of corporate ethics and accountability. They often engage with top management to stress the need for transparency and good governance practices within the organization. This pressure from influential investors motivates companies to adopt more robust mechanisms for reporting financial information accurately.

Research Objective

The main objective of this blog article is to analyse the impact of foreign institutional investors (FIIs) on promoting corporate governance in Indian listed companies. With India's growing economy and increasing global investments, FIIs have emerged as major players in the Indian stock market. This raises the question of their role and influence in promoting good corporate governance practices in India.

There are followings objectives on this study

- To understand the concept of corporate governance and its importance in listed companies in India.
- To identify the major factors affecting corporate governance practices in Indian listed companies.
- To examine the regulatory framework for corporate governance in India and its effectiveness in promoting good governance.
- To analyse the role of foreign institutional investors (FIIs) in Indian stock market and their impact on promoting corporate governance.

Hypothesis

H0: Foreign Institutional Investors (FIIs) do not have any significant impact on the corporate governance practices of Indian listed companies.

H1: FIIs play a crucial role in promoting good corporate governance standards in Indian listed companies.

Research methodology

The Indian market has witnessed a significant increase in the participation of foreign institutional investors (FIIs) over the years. These FIIs play a crucial role in shaping the corporate governance standards of Indian listed companies. This research paper aims to study and analyse the role played by FIIs in promoting corporate governance practices among Indian listed companies. The methodology used for this research is a mixed-method approach, which includes both qualitative and quantitative methods. The study begins with an extensive literature review to gain a better understanding of FII behaviour and their impact on corporate governance practices. Secondary data from various sources such as academic articles, reports, and regulatory bodies are also used to support the findings. Furthermore, primary data is collected through interviews with key stakeholders including FII representatives, top management personnel of listed companies, officials from regulatory bodies like Securities and Exchange Board of India (SEBI), independent directors, and industry experts.

Research question

1. How has the presence of foreign institutional investors (FIIs) influenced the corporate governance practices in Indian listed companies?
2. What are the key factors that attract FIIs to invest in Indian companies, and how do these factors impact corporate governance?
3. What is the level of FII ownership in Indian listed companies, and what influence do they have on decision-making processes and board structures?
4. How have regulatory changes and reforms, such as SEBI's listing obligations and disclosure requirements, affected the role of FIIs in promoting corporate governance?
5. How do foreign institutional investors influence the composition and functioning of board of directors in Indian listed companies?

Data Collection

Corporate governance is a crucial aspect of any business organization that aims to promote transparency, accountability, and ethical decision-making. In recent years, there has been an increasing interest in understanding the

role of Foreign Institutional Investors (FIIs) in promoting good corporate governance practices in Indian listed companies. FIIs are institutional investors from foreign countries who invest their funds in the stock markets of other countries. The primary objective of this study is to analyse the impact of FIIs on improving corporate governance standards in India through data collection and analysis. This research will use both primary and secondary data sources to gather relevant information on the topic.

Methods of data analysis and data interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

Data Discussion

Corporate governance refers to the set of rules, regulations and processes adopted by a company to ensure transparency, accountability and fairness in its operations. In recent years, there has been an increasing focus on corporate governance with the aim of promoting ethical business practices and protecting shareholder interests. As India emerged as one of the leading economies in the world, foreign institutional investors (FIIs) have played a significant role in shaping the corporate landscape. Foreign institutional investors are entities that invest money on behalf of their clients in financial markets outside their own country. They include pension funds, mutual funds, hedge funds and other types of investment firms.

Findings

The findings of various studies have highlighted the significant role played by Foreign Institutional Investors (FIIs) in promoting corporate governance practices among Indian listed companies. These FIIs, which include foreign pension funds, hedge funds, mutual funds, and sovereign wealth funds, have become major players in the Indian stock market over the years.

There are followings findings on this study

- FIIs have a positive impact on corporate governance practices in Indian listed companies.
- Companies with higher FII ownership have better disclosure practices and are more transparent compared to companies with lower FII ownership.
- FIIs also play an active role in monitoring the management of the companies they invest in.
- The presence of FIIs has led to improvements in board structures and independence.
- FIIs encourage greater shareholder activism and involvement by promoting shareholder rights and ensuring that management is accountable to its shareholders.
- Studies have shown that companies with higher FII ownership perform better financially compared to those with lower FII ownership, indicating that good corporate governance can lead to better business outcomes.

Suggestions

Despite the progress made in recent years, there is still room for improvement when it comes to corporate governance practices in Indian listed companies. Foreign institutional investors (FIIs) have the potential to play a crucial role in

promoting better corporate governance within these organizations. In this section, we will discuss some suggestions on how FIIs can effectively promote and ensure good corporate governance practices in Indian listed companies.

There are following suggestions on this study

- **Collaboration with regulatory bodies:** FIIs should collaborate with regulatory bodies such as Securities and Exchange Board of India (SEBI) to ensure that listed companies comply with corporate governance norms.
- **Integration of ESG factors:** Environmental, social, and governance (ESG) factors are becoming increasingly important for investors.
- **Active engagement with company management:** Instead of only looking at financial performance, FIIs should actively engage with company management to understand their governance policies and practices.
- **Proxy voting:** FIIs should exercise their voting rights in shareholders' meetings and cast votes in favour of good corporate governance practices.
- **Demand Regular Financial Reporting:** FIIs should demand regular financial reporting from Indian listed companies to ensure transparency and accountability in financial statements.
- **Encourage Whistleblower Policies:** By pressuring companies to implement whistleblower policies, FIIs can help detect any fraudulent activities or unethical behaviour within organizations.

Conclusion

In conclusion, foreign institutional investors play a crucial role in promoting corporate governance in Indian listed companies. Through their significant ownership stakes and active involvement, they have helped improve the transparency, accountability, and overall effectiveness of corporate governance practices in these companies. The presence of FIIs has also encouraged Indian companies to adopt international standards of corporate governance, making them more attractive and competitive on a global scale. However, there is still room for improvement as some challenges remain, such as ensuring equal rights for minority shareholders and addressing potential conflicts of interest between FIIs and the company's management. Nevertheless, it is evident that FIIs have had a positive impact on the overall corporate governance landscape in India and will continue to do so in the future.

Limitations of Study

Despite the potential benefits and important role that foreign institutional investors (FIIs) play in promoting corporate governance in Indian listed companies, there are several limitations to consider when interpreting the findings of this study. Firstly, due to the complex nature of FIIs and their investments in India, it can be challenging to accurately measure their impact on corporate governance. While this study utilizes publicly available data from sources such as annual reports and stock exchange filings, there may be

other factors at play that are not captured by these sources. Secondly, the sample size used in this study is relatively small and may not be representative of all FIIs operating in India. As a result, the findings cannot be generalized to all FIIs or all Indian listed companies.

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