

## The Relationship between Foreign Ownership and Firm Performance in India: An Empirical Analysis

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*The paper examines the impact of foreign ownership (foreign promoter, foreign corporate shareholding and foreign institutional investors) on firm performance. The empirical analysis is done on the panel data of 145 non-financial NSE listed companies for a period of five years, i.e., from 2008-2012. Firm performance has been measured using market based measure Tobin's Q and accounting based measures Return on Assets (ROA) and Return on Equity (ROE). Multiple regression analysis is done using Pooled OLS and Panel Data- Random Effect Model. Foreign ownership is found to have a positive and significant impact on firm performance measures under Pooled OLS model, but the impact is found only positive in Random Effect Regression. The relationship between foreign corporate ownership and firm performance is positive and significant at varying level of significance. Foreign institutional ownership is found to have an ambiguous relationship with different firm performance measures used.*

### I Introduction

The term foreign ownership encompasses all forms of foreign private investment in a foreign country which confers control and ownership over a package of resources. The package here includes technology, capital, management and financial expertise, etc. It is generally considered that foreign ownership has a positive impact on a firm's performance, especially in developing and emerging economies. The notion is based on the fact that foreign investments provide access to certain specific assets such as technology, managerial ability, access to foreign markets, corporate governance techniques and other intangible benefits. The interaction effect of foreign corporate organization promotes efficiency and enhances the performance of domestic firms. However, due to lack of knowledge and expertise in the local financial and legislative environment, foreign investors are inherently at a disadvantage compared with domestic investors.

In many developing countries like India, there are limited sources of domestic finance, which prompted economic liberalization enabling investment in the domestic firm by foreign investors (corporate and/or institutions).

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