

A Correlation Between Mass Media Communication and Foreign Investments in India

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Abstract

Background and Purpose: India opened its doors to globalization in 1991, and the reference point of this change through globalization has been the United States of America (USA), which champions the cause of a free economy. The current study attempted to explore the relevance and importance that globalization has brought to India through mapping the shifting pattern of mass media coverage of India by the foreign media and parallelly marking the shifting patterns in investments made by foreign financial institutions in India over the last decade and a half.

Design/Methodology/ Approach: Top 25 news articles about India reported by The New York Times (NYT), every year, over a span two decades (1991-2010) were taken from the NYT website. The 500 news reports were filtered and news falling in the category of "Business and Personal Finance" (BPF) were used for content analysis and categorized into three broad types – good, bad, or neutral. Similarly, the investments made by foreign institutions (FI) in India were noted over the same period to explore a correlation between the BPF media reports and the investments made by FIs in India. Since media reports do not often have an immediate impact, a lag effect of 1 year was checked. The data was statistically validated.

Findings: The findings indicate an exponential rise in the number of news items which NYT carried about India over a period of two decades. There was a change in the category of news coverage from 'Arts and Culture' to 'Politics and Business'. The type of news reports changed from neutral to positive and the news reporting was more visually aided with photographs and pictures. A similar pattern was noticed in the foreign investments by institutions, which grew over a period of time. This clearly indicated the existence of a relationship between positive news coverage by independent media and a rise in the amount of investments made by foreign institutions.

Research Limitations/Implications: The study was limited to establishing a relationship between media representation and investments by foreign institutions, but the direction and the intensity of the relationship was not established. A lag effect of 1 year was considered.

Originality/ Value: Observations and comments about India's changing position as a potential economic power and the positive prospect for investments were made, which were empirically validated by the study. The study also brought out one of the factors which positively impacted investments in a developing nation like India.

Keywords : India, investments by foreign institutions, shift in communication quality and quantity, globalization

JEL Classification : D830, D790, G140

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The world is getting integrated and technology is binding the various facets of human activity and every action of an individual or institution impacts the seemingly remote and apparently disassociated activities undertaken by others in far-fetched places as well. Developed nations like United States of America (USA) or other European countries are linked to the developing or under-developed countries of Asia and the African sub-continent. Technology has wired instances leading to an efficient flow of information. The technological knitting is overlapped with economic association due to the liberal economic policies and structures adopted by Asian and African nations, which has facilitated trade and commerce between developed, developing, and under-developed economies of the world in creating a globalized world where political and economic powers rely on countries and systems outside their geographical boundaries to grow, develop, and sustain (Amoribieta, Bhaumik, Kanakamedala, & Parkhe, 2001). So, countries across the globe are exploring and are creating systems and policies which encourage a symbiotic association with the outside world.

Economic association is one of the most popularly employed means through which countries partner with each other to establish and nurture long term associations. For developing nations, foreign investments made by multinational companies (MNCs) help to boost the gross domestic product (GDP); while, for the developed world, the other world - developing and under-developed nations are sources of untapped resources like raw material at rock bottom prices, labour - availability of both skilled and unskilled labour at very cheap rates, and the availability of a large captive market in the form of a huge consumer base, which leads most developed nations to focus on the underdeveloped or developing economies.

In the present times, Asia is recognized as a potential market. A recent study by the Asian Development Bank (2011) noted that, "Asia is in the midst of a truly historic transformation. It holds the promise of making some 3 billion additional Asians, hitherto commonly associated with poverty and deprivation, affluent by today's standards" (p. 17). With this statement, the world view of Asia is clearly expressed. The factors which fuel the Asian growth can be divided into broad categories - classic and new factors. The classic factors are technical progress, capital accumulation, and labour force growth; while, the new factors are the growing middle class, climate change, and the communications revolution (Asian Development Bank, 2011). The changing economic topography of Asia has shifted global media attention towards Asia and has enhanced investments by Western companies.

The current study is an attempt to map the altering stance of the Western media towards India and to correlate the media reporting pattern about India with the investment pattern of the foreign institutional investors (FIIs).

Literature Review

(1) Globalization and Interconnectedness : Globalization has been the most outstanding area which has drawn attention of scholars and practitioners across all fields since the end of the cold war in the twentieth century. As Scholte (1993) put it that globalization stands out for quite a large public spread across the world as one of the defining terms of the late twentieth century consciousness. Most scholars find the term elusive, difficult to define, and extremely broad based as it encompasses activities ranging from "democratization, development, market deregulation, privatization, welfare reform, new security, agendas (such as immigration and drugs), and the general retreat of all aspects of the state" (Reich, 1998, p. 2).

Scholars like McGrew (1990) defined globalization as multiplicity of linkages and interconnections that transcend the nation states (and by implication, the societies) which make up the modern world system. It defines a process through which events, decisions, and activities in one part of the world can come to have a significant consequence for individuals and communities in quite distant parts of the globe. Cerny (1995) looked at globalization as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy - in particular, the increasing structural differentiation of those goods and assets. The two key features of globalization have been the

'interconnectedness that transcends nations' and the emphasis on the 'changing character of goods and assets'.

Empirical evidence indicates a positive economic impact of globalization on Asian and South Asian countries (United Nations, 2008). India, among other countries like China, South Korea, Malaysia, and so forth has been recognized as a country of choice by the Western developed world (Barthelemy, 2003; UNCTAD, 2007) and researchers have listed out the reasons for the same - cheap labour, rapid change in technology, low cost and high returns in quality and experience, and a captive untapped consumer base with an increasing disposable income (Deavers, 1997 ; Ribeiro, 2001). As a result, the present world is marked by economic, technological, and cultural interdependence, which has led to an interconnected social order (Albrow, 1996 ; Held, McGrew, Goldblatt, & Perraton , 1999 ; Johnston, Taylor, & Watts, 1995; Kofman & Youngs, 1996; Zürn, 1995).

(2) Factors of Economic Development Include Media : Most researchers have asserted that economic concerns are the only drivers which draw the developed world towards developing nations, but there are those who have laid emphasis on more sophisticated factors like the media, which plays a subtle but an extremely crucial role in the process of economic development of a nation (Djankov, McLiesh, Nenova, & Shleifer, 2003 ; Papanastassiou, 2009 ; Sen, 1984). Most writers have asserted a positive relationship between an assertive and free media and the development outcomes of the 'development aspiring' nation. Stiglitz (2002) focused on the enhanced degree of governmental transparency and accountability in nations where media is strong, which leads to positive economic development and better public policies, which is an important consideration of the multinational companies (Spitzer, 1993). Similarly, private business agencies also operate better with stringent corporate governance norms and execution (Dyck & Zingales, 2002) and reduced principal agent problem (Besley & Burgess, 2001; Besley, Burgess, & Andrea, 2002).

However, a lot of research attention has not been paid to the altering shifting stance and resultant impact which foreign media projection holds on the development process of a 'development aspiring' nation, though stray studies reflect the shift in foreign media attention towards positive for nations like India (Tewari & Pathak, 2013).

In the present globalized times, the development process of a nation is highly dependent upon the investments made by the foreign companies in a nation, and the closed doors policies of Government of India has often been considered as a factor which deterred India's growth till 1991 (Johri , 1983). Foreign investments are dependent upon the 'image' which the multinational companies hold about a nation where they may want to invest funds and boost the process of economic development (Gutierrez & Kelley, 2008).

Mass media plays a very important role in creating perceptions (Loughran & McDonald, 2009) about people and other countries (McNelly & Izcaray, 1986) because most people get their information about people and systems outside their immediate environment through various channels of mass media (Lippmann, 1922; Tetlock, Saar - Tsechansky, & Macskassy, 2008 ; Tetlock, 2010a). Therefore, mass media plays a vital role in creating images about individuals, communities, and nations (Demers & Vega, 2010).

(3) Impact of Media Images and Framing on Investments : Recent studies have shown a strong correlation between media stories and stock market reactions (Peress, 2008 ; Tetlock, 2007; Tetlock, et al., 2008; Tetlock, 2010b). News stories covered in national newspapers are associated with substantial price responses in the stock market. This underlines the relationship between an investor and the availability of the media to an investor. Engelberg and Parsons (2010) were the first to link individual investors to their respective media sources and ,therefore, provided conclusive evidence that media effects are real and substantial.

With an increase in electronic media, the number of media sources have grown exponentially. Availability of media reports is no longer specific to a particular geographical region. The current paper extends the research by linking FII investments to the media coverage of India by foreign media. 'Sentiment,' which is broadly defined as investor psychology has been posited as an important determinant of asset price variation (Keynes, 1937; Shiller, 1990). Investor sentiment is, among other things, affected by media coverage. Soo (2013) revealed that it is

difficult to link sentiments and asset prices since beliefs are basically unobservable. However, she captured sentiments by observing the qualitative tone of housing news from local newspapers- by calculating the difference between the positive and negative words across newspaper articles. Also, literature on asset price bubbles has established that media reflects and builds sentiment through an incentive to cater to readers' preferences over a particular asset (Galbraith, 1990 ; Kindleberger, 1978; Shiller, 1990). It is, therefore, a mix of behavioral and fundamental factors that has an impact on asset prices, which are, in turn, governed by their demand as measured by the flow of money. The fundamental factors which are responsible for FII investments in India are the returns available in the domestic stock markets, the exchange rates, IIP data, short run interest rates, inflation, country risk ratings, and the beta of the Indian stock market (Pathak, 2015). This list is not exhaustive. However, apart from these fundamental factors, the psychological reason (read 'sentiment') for investments have been looked into with the help of content analysis and categorization of the news reports of New York Times about India.

Methodology

(1) Data Source and Sample : The New York Times (NYT), USA's leading daily was selected to draw out data for the media coverage about a developing nation, and here, India was chosen as a sample of the developing world because apart from India, China is another preferred destination for investments, but access to both media and financial data for China was difficult to procure, while that of India was available on the public domain through reliable sources. Since the study was targeted at mapping the association between media coverage and foreign investments post globalization, a total number of news articles pertaining to India which featured in NYT were noted and the top 25 news articles of each year from 1991- 2010 were filtered through "relevance" from the NYT website and were downloaded. A total number of 500 news articles were downloaded. Of these 500 news articles, 120 articles dealt with 'Business and Personal Finance' (BPF), which were used for content analysis to segregate BPF news as positive, negative, or neutral news.

Content analysis is the most prevalent research technique in the field of communications research and has been described by Krippendorff (1980) as a research technique for the objective, systematic, and quantitative description of the manifest content of communication. To measure the association between the BPF news and the investments made by foreign institutions in India, the data regarding net cumulative investments made by foreign institutional investors (FIIs) in India between 1991- 2010 was analyzed (Indiastat.com, 2014).

(2) Analytical Tool and Technique (Cross Lagged Correlation) : There may be several reasons for a lagged relationship between FII investments and positive BPF news. A simple correlation coefficient is insufficient to characterize the relationship between FII investments and positive BPF news. Instead, the cross-correlation function, which is a correlation between two series shifted one against another as a function of the number of observations of the offset was used.

A correlation between the FII investments made in India from 1991 – 2010 and the total business news published by NYT about India were checked. Furthermore, a correlation was also checked between positive BPF news and the FII investments in India. A lag effect of 1 year was taken because investment decisions by institutions are process driven, which entails a time loss. So, media impact on investments was studied with a time lag due to the time lost in the decision making process on account of organizational procedures, psychological, and technological reasons. FIIs often do not change "investment patterns," even if there are changes in the "investment environment" due to 'inertia or habit' (Dean & Mayer, 1996 ; Larsen & Lomi, 2002). They are not sure whether the "change" is "permanent" or "transitory" and would, therefore, want to wait and watch.

Table 1. News About India in NYT

Year	News Reports				
	Total Reports about India	Business & Finance News (BFN)	Positive News (PN)	Negative NN	Neutral News (NeuN)
1991 - 2010	138391	120	65	34	21

Table 2. Correlation without the Time Lag

	FII	PN	TN	BFN
FII	1	0.34826	0.33036	0.30363
PN	0.34826	1	0.23185	0.89026
TN	0.33036	0.23185	1	0.27304
BFN	0.30363	0.89026	0.27304	1

Table 3. Correlation with One Year Time Lag

	FII	PN	TN	BFN
FII	1	0.71692	0.31164	0.56236
PN	0.71692	1	0.20252	0.89694
TN	0.31164	0.20252	1	0.26367
BFN	0.56236	0.89694	0.26367	1

Analysis and Results

Business and finance news (BFN) about India forms a small component of the total news covered by NYT about India. Other categories in which news is covered is political and governance news, accidents, and art and culture. BFN about India is found to be largely positive. The Table 1 shows the composition of BFN. The detailed news coverage with a breakup of each year is provided in the Appendix 1.

To understand the impact of news on investments made in India, a correlation is checked between the BFN covered by NYT about India and the foreign institutional investments made in India from 1991-2010. Furthermore, for a sharper understanding of the type of news and investments, a correlation is checked between positive news (PN) and the investments made (Table 2). All the correlation values are less than 0.4, indicating weak correlation between the institutional investments and BFN coverage about India, leading to checking the correlation between positive news and investments, which is also found to have a weak correlation.

Since the nature of data (news and investments) are affected by time and as earlier literature has indicated the possibility of a time lag, the impact of total news and BFN on the investment was checked with a 1 - year time lag. The correlation between BFN and FII is moderate, but foreign investments are found to be highly correlated to PN, with the correlation value being greater than 0.7 (Table 3).

Discussion

Financial news reporting by foreign media about India has been growing consistently over a period of time, and there is a distinct change in the news category and the type of news coverage. The nation is developing economically and is further integrating into the global economic order, which validates the findings of previous studies that media reporting is impacted by the bias that the media carries about a subject (Gentzkow & Shapiro,

2006). The category of news about India has risen in the business and finance category, which could be because of the shifted focus that the media has about the development of an economy, which validates the research findings of Papanastassiou (2009), and once the media frames (Lippmann, 1922) a positive opinion, then the news coverage shifts from negative or neutral news to positive news. As earlier literature indicates that positive news coverage leads to an increased investment as reported by Engelberg and Parsons (2010), so is reflected in the current research where the institutional investments have shown a positive correlation, which is substantiated by the findings of Gutierrez and Kelley (2008), who categorically indicated an association between a rise in investments and positive media coverage.

Since permeation of news reports is a time-consuming process, therefore, the lagged effect was checked and the results of the current research once again assert the fact that the media plays a very crucial role in deciding the investments which happen in a nation, since most investment decisions are perception based as indicated by Ozik and Sadka (2010).

Investments of a nation are, therefore, not entirely determined by hard eco-politico parameters, but also by softer elements like perceptions and opinions. The views of the hard parties play a very crucial role in impacting the economic health of a nation. Therefore, policymakers and diplomats should ensure that the nation must have systems and policies through which economy-friendly information is disseminated. This explains the reason for the prevalence of an organized lobbying industry amongst the most developed nations of the world.

Managerial Implications

With most medium and large size organizations in India aspiring to hold an international face to their businesses in the form of either exploring markets overseas or associating with vendors or suppliers for international business partners or mergers and/or acquisitions, managing the perceptions about their industry and businesses becomes an essential component. The opinion and views of the individuals or institutions beyond the local realms is distinctly impacted by the information spread through media. The results from the current study distinctly provide ample evidence of the strong role media plays in influencing hard decisions like investments as well.

It builds a convincing case for the decision makers in organizations to manage their inbound and outbound communication. Communication needs to be handled as a strategic tool by corporates to hold, influence, and manage their stakeholders, who are no more bound within local boundaries. The paper also establishes the over-peeking though invisible power which communication holds and, therefore, the essentiality of it with care. Managers and practitioners working in the field of communication audit will find a strong premise to further and establish the audit function in their organizations.

Conclusion

Impact of media coverage on investments has been an area which has gathered a lot of attention because the spread of information through technology aided media channels has led to broader dissemination and increased awareness. The electronic medium has reduced geographical barriers and, therefore, post globalization, media of the developed nations has stepped up the focus and attention it pays to the economic activities of the developing nations. Investments made by institutions and retailers are dependent on media, which is considered as the only authentic source of neutral information on account of which the centrality and prominence enjoyed by media in decision making is growing.

Researchers internationally, especially in the developed nations like the United States and the United Kingdom, have studied the impact of information in general and the media, in particular, on different economic parameters like stock markets and various other assets, but such studies in India have not been conducted. The prime reason being that the advancement of the electronic medium as a form of communication in India is a recent

phenomenon, and the country is still trying to get a grip on the impact which the media interfaces.

The 'information effect,' conclusively reflected in the study brings out two key elements - media coverage needs to be handled and managed keeping the nation's economic goals in mind, and the information impact is a delayed phenomenon, and therefore, studies and impact should be studied over a time-line which also requires dedicated efforts. The managements of corporate houses should begin to attend and focus on this softer attribute of the current business world. Though the study encompasses only foreign media, but for a nation of the size of India, it can be safely understood that national citizens make an opinion about economic, social, and political activities through the information received by media from respective regions.

Limitations of the Study and Scope for Further Research

The current study limits itself to only print media as a form of communication ; though, over a period of time, the electronic media is growing in use and impact, and therefore, further studies must include the electronic mode of communication. Furthermore, the study is limited to one foreign media only though in a vast country like India, inclusion of coverage by national dailies from other regions of the country may also be included along with mapping the impact of investments made by the retail investors along with national institutional investors within the purview of the study. Researchers and academicians may also include the role and impact of internal communication on employees' inclination and attitude towards schemes like ESOPs. Furthermore, CLC as a methodology is a very popular method in identifying causal relationships in psychological and education research, but it can be employed differently if the individual series are autocorrelated as CLC can then be misleading and distorted as a measure of the lagged relationship. This can be overcome by the process of "prewhitening" or through the "impulse response function". Further work in this area is possible after checking the data for autocorrelation. Drawing similar references for other developing countries might not be possible since the data pertains to India only.

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Appendix 1. News Articles and FII Investments from 1991 - 2010

Year	Total No of Article	Article on buss and Finance amongst top 25	Positive	Negative	Neutral	FII* (₹ in crores)
1991	1410	4	1	3	0	
1992	971	5	1	3	1	13
1993	1070	7	2	5	0	5127
1994	1410	4	3	0	1	4796
1995	1500	7	3	2	2	6942
1996	1280	4	2	1	1	8575
1997	1640	5	2	2	1	5958
1998	2040	5	1	2	2	-1584
1999	1730	2	2	0	0	10122
2000	1970	8	5	2	1	9933
2001	3550	1	0	0	1	8763
2002	3430	6	5	0	1	2689
2003	3810	1	0	1	0	45764
2004	5290	8	6	2	0	45880
2005	8,690	14	9	3	2	41467
2006	15100	9	5	2	2	30841
2007	33700	6	3	2	1	66179
2008	23100	7	4	1	2	-45811
2009	15800	6	2	2	2	142658
2010	10,900	11	9	1	1	146438

*(Source: NewYork Times (2014) and Indiatat.com (2014))