International Transaction Journal of Engineering, Management, & Applied Sciences & Technologies

http://TuEngr.com

TuEngr Group

PAPER ID: 11A06M

IMPACTS OF FOREIGN DIRECT INVESTMENT ON INDIAN RETAIL BAZAAR: AN EMPIRICAL STUDY

Anis ur Rehman [1*], **Faraz Ahmad Abbasi** [1]

[1] *Department of Management and Information System, College of Business Administration, University of Hail, KINGDOM OF SAUDI ARABIA.*

ARTICLEINFO

Article history:
Received 09 August 2019
Received in revised form 07 January 2020
Accepted 15 January 2020
Available online 24 January 2020

Keywords:
Single brand retailing; Organized retailing; Single-brand stores; Indian retail sector; Managers' perception of FDI; FDI impacts.

ABSTRACT

For nations following the pursuit of development, foreign direct investment (FDI) is seen as the basis of sustainable development of economy, revenue, and job creation. Many nations liberalized their policies to accommodate FDI. A significant change is seen in the Indian retail sector vis-à-vis foreign direct investment with the introduction of favorable policies. This paper attempts to find the managers' perceptions regarding numerous FDI concerns of the retail sector in India. A total of 153 managers employed in the retail industry were selected as the respondents for this study. The perception of managers on FDI in retail is analyzed using the mean score and examined using correlation and regression. The results indicate that FDI in retail will provide better prices to suppliers, create new employment opportunities and develop better infrastructural facilities. It was also found that employment and pricing benefits are significantly impacting managers' perception vis-à-vis foreign direct investment in the retail sector of India, as compared to value chain and economic & external factors benefits.

Disciplinary: Economic and Management Sciences.

1. INTRODUCTION

The knack to draw foreign direct investment (FDI) is crucial to economic progress, growth strategies and successful governance. Foreign direct investment by transnational corporations influxes the economy with foreign currency, creates jobs, introduces advanced technologies, develops functional and managerial skills, and improves productivity and efficiency leading to a higher level of competitiveness (Kearney, 2011).

The new generation of consumers are different as compared to their predecessors, they value their shopping experience as much as the product itself and expect the experience to be flawless at every level, be it a hypermarket, or across the corner store, an e-seller, a shopping app on their

*Corresponding author (Anis ur Rehman). Tel: +966-501382300. Email: anisur.rehman11@gmail.com

handheld devices, or a telephonic call with customer care executive. The new age of technology has rewritten the rules of retailing and transformed the retail industry. The benefits of modern technology have created unique opportunities in all fields ranging from customer service, supply chain, electronic transactions, and inventory management. The retailers worldwide are striving hard in pursuit of competitive advantage and are leaving no stone unturned. They are using technologies of all sorts from robotics employed by Amazon (more than 40000 robots engaged in warehouses, and different legs of supply chain and logistics), drone delivery (Amazon successfully delivered an order using a drone in England as early as in 2016), using the e-commerce and anti-fraud tools. Amazon started testing smart shelves that inform about low inventory levels, uses Radio Frequency Identification (RFID) sensors that keep the track of products in real-time till it gets to the customer and has smart digital assistants like Alexa (of Amazon) and appliances such as refrigerators that can place orders for groceries.

In the Indian context, the retail sector became a leading sector of the economy. It was estimated to be worth US$600 billion approximately by 2015, with a Compound Annual Growth Rate (CAGR) of 7.45 percent ever since the millennium year. As per recent estimates, it is likely reaching a level to a tune of USD 1.3 Trillion as early as 2020, with a CAGR of 9.7 percent from the years 2000-20 (Vyas, 2015).

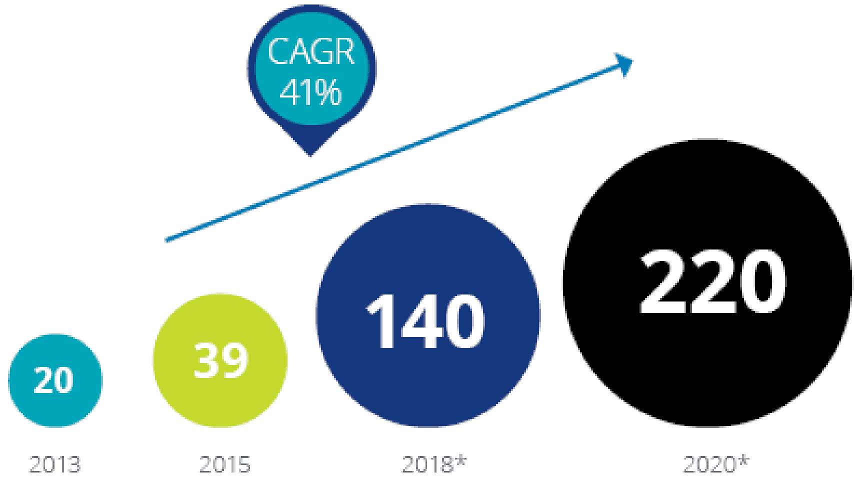

Figure 1: Estimated number of online shoppers in India (in millions).
Source: Euromonitor, IAMAI, Media Reports, 2020.

In order to make the retail sector more lucrative to global players, the Government of India (GOI) has permitted a hundred percent FDI for internet-based retailing of products via automatic route. Lately, GOI accomplished the implementation of GST (Goods and Services Tax). The intention to implement this tax is to facilitate the smooth distribution of goods Pan-India thus simplifying the retailing process for national retailers leading to reaching of benefits to the final consumer.

2. LITERATURE REVIEW

The organized Indian retail sector is slated to witness a ten percent growth by 2020 (CRISIL report, 2017). CRISIL report states that a sharp rise in a number of stores is expected due to easing of rules and emerging conducive ambience for single-brand retailing.

Nasir (2015) highlighted higher jobs, affordable products, income growth, contract farming, and better infrastructure as advantages of FDI. He also mentioned various drawbacks of FDI like more control of foreign companies, a threat to local retailers, shutting down of small local players. He concludes that the overall impact of FDI will be constructive and India should follow the example of China where both foreign and local retailers grow and prosper with each other.

Kumar & Bansal (2015) highlighted that farmers, consumers, cottage industries and rural people will benefit from FDI. On the other hand, FDI has a negative impact on local retailers. They concluded that local retailers can survive the competition from big foreign players by using their regional knowledge of consumer preference.

Grover & Gupta (2014) made use of regression analysis to identify the descriptive variables affecting the entry of FDI in India. They also developed the FDI model and Economic growth model to understand the effect of FDI on the growth of India. They found a positive relationship between foreign direct investments and GDP and trade GDP. They also found a negative relationship between FDI with R&D GDP and exchange rate GDP variables.

Manik & Singla (2013) tried to study the effect of FDI on Indian retail by using SWOT analysis techniques and five forces framework of Michael Porter. They suggested that new reforms by the government in foreign direct investments would lead to higher economic growth. Modern retail is a booming word but must be carefully monitored and controlled for fair usage of extended retail power.

Fulzele & Zodage (2013) studied the influence of foreign direct investment on the retail market in India. They discuss that India is a lucrative market for foreign investors because of its unique prospects. They pointed out that foreign direct investment has many benefits for the Indian economy such as more job openings, support to farmers, affordable prices to consumers, support to small and cottage industries, the influx of investment, better infrastructure, stable economy, enhanced services, the influx of advanced technology, etc.

Elahi et. al. (2013) deliberate on the impact of FDI on the Indian retail sector with a focus on various issues and challenges associated with FDI in retail. They suggest that FDI in Retail will provide better prices to suppliers especially farmers and it will create new employment opportunities.

Aggrawal et.al. (2012) have focused on the policy of the Indian government in a single brand and multi-brand retail categories. They suggest that the Indian government should consider foreign direct investment in multi-brand retail. They posit that permission to foreign players to operate in Indian markets would provide global reach to the Indian retail market.

Jain and Sukhlecha (2012) have discussed the pros and cons of government reforms on foreign direct investment. They are in favor of allowing international players in Indian retail. However, they warn that the top limit for international retailers even in single brands should not be higher than fifty-one percent, which is important in order to have tight control over the retail business.

Devajit (2012) suggested that the Indian economy needs foreign direct investment for its long-term progress through higher job opportunities, an extension of industries and new projects in various sectors.

Sharma and Sahu (2012) explored that earlier government policy required single-brand stores to use thirty percent of their goods from Indian producers. Nevertheless, the foreign marketers were allowed full proprietorship if they create something new in Indian retailing.

According to Dikshit (2011), around forty million of the population in India is employed by the retail sector and supply chain business in India. The majority of the retail industry in India is composed of unorganized small retail shops. According to the 2010 government data (Consolidated FDI Policy Circular 1 of 2010), big organized retail chains comprised only four percent of the total retail sector in India. This situation was partly due to government policies that did not allow foreign direct investment in multi-brand retail. At the same time, the ownership permitted to single-brand retail was also restricted to fifty-one percent and that too was given after the foreign players followed a rigorous bureaucratic procedure.

Mckinsey & Company (2007) predicted the worth of retail business in India to be four hundred and fifty billion US dollars. The study assessed the share of retail in Indian gross domestic product to be around 15% and Indian retail stood among the top-five retail markets at the global level in terms of market worth. India also stands among one of the most rapidly rising retail sector across the globe due to its fast-growing population of more than one billion potential buyers.

3. FDI IN INDIAN RETAIL SECTOR

Foreign direct investment is both value-adding and supporting local markets and investments. It enables an organization to achieve enhanced access, top of the line technology and additional funds. In addition, the organization gets exposure to the best and latest management practices from across the globe and gets an opportunity of being part of the international market structure. The farming segment productivity is expected to increase by exploiting the latest equipment and knowledge (Sailaja, 2015). The Indian government has introduced a mandatory condition of procuring 30 percent material from the domestic market to give a stimulus to Indian industries. The chances of having more jobs in rural, suburban and urban areas are better because of greater backend and frontline operations resulting due to higher FDI. Current retail establishments and merchants are also likely to improvise and improve their practices and raise their efficiencies as an outcome of this decision. Consumers & customers will get superior services and manufacturers providing raw material items will gain from higher prices for their products (Bhardwaj et. al. 2005).

The multi-billion-dollar Indian retail sector has received a booster from the government's recent order permitting a maximum 51 percent FDI in multiband retailing & 100 percent in single-brand retailing. The policy mandated a hundred million dollars investment, of which fifty percent has been planned in backend facilities such as cold storage, cooling plants, storages, transit, inventorying facilities, etc. Additionally, overseas retailing companies must rope in a minimum of 30 percent of resources from the small and cottage industry of India.

The Indian government increased foreign direct investment in single-brand retailing from 49 percent to 100 percent in January 2018 via automatic route. The foreign players could earlier acquire 100 percent ownership with the approval of DIPP (Department of Industrial Policy and Promotion). Currently, the foreign direct investors can be sole owners of Indian operations without the DIPP approval (Press Note 3 of 2006, DIPP, GOI).

The Indian government is considering the relaxation of regulations vis-à-vis the mandatory 30 percent local procurement for foreign single-brand retail investors. It is proposed that unlike the present situation, single-brand retailing companies will be able to operate online even without starting a physical outlet. The government is considering the relaxation of provisions for foreign retailing companies by allowing them to adjust sourcing of goods from the Indian market for their international operations to meet the compulsory Indian sourcing condition. Indian Minister of Finance, Ms. Nirmala Sitharaman stated in her budgetary address that local sourcing rules would be relaxed for Foreign Direct Investors in single-brand retailing.

Execution of Goods and Services Tax (GST) is a consideration while discussing FDI in retailing because GST regulations affect the business landscape in India to a large extent. The logistics costs have been lowered after GST implementation, as there is a smooth movement of goods throughout different states. The clearance time for goods at borders of states has reduced drastically, resulting in an increase in the inventory velocity. It adds to competitive advantage for the multi-national companies by providing an array of functional and cost benefits.

Approximately more than USD450 billion (out of total USD500 billion of Indian retail market) is run by family-owned small enterprises. As per Deloitte's report (2016), the food and grocery segment covers a total of 60 percent of the share of the market. Many amongst the biggest name operating in India or planning to establish operations are into this category. A share of less than 10 percent held by organized retailers is set to increase to 20 percent by the year-end of 2020.

STRENGTH • Increased purchasing power • Demographics of population • Low penetration in retail • Middle-class aspirations	**WEAKNESS** • Political uncertainty • Regulatory conditions • The bad state of Infrastructure • Low quality of Supply chain management
OPPORTUNITY • R&D and modernization capacity • Technology investments • Digital change • Focus on the customers • Dynamic nature of the regulatory framework	**THREAT** • Availability of land and real estate • Human capital

Figure 2: SWOT analysis of the Indian retail sector
(Source: Compiled by author)

4. RESEARCH METHODOLOGY

A questionnaire survey has been selected as a tool for gathering data in this study. The existing body of literature has been extensively used for developing the questionnaire. The research design is exploratory. The study is conducted with a sample size of 153 which includes retail industry professionals. These professionals consist of senior and middle-level managers involved in various retail outlets in Uttar Pradesh and NCR region in India. They are selected using purposive sampling.

The questionnaire consists of 10 attributes related to FDI in Indian retail which are expected to be analyzed. The Likert scale was used to collect responses regarding the listed attributes. Data was

*Corresponding author (Anis ur Rehman). Tel: +966-501382300. Email: anisur.rehman11@gmail.com

gathered using a personal interview. It took three months' time to collect data from June to August 2019.

The influx of foreign direct investment in the Indian retail market is presumed to bring various benefits. However, it is important to understand the significance of these benefits from the perspective of managers working in the Indian retail sector. A conceptual framework (shown in Figure 3) has been developed to verify the following hypotheses that have been developed for this study:

H_{01}: Employment benefits will determine the managers' perception of FDI in Indian retail.
H_{02}: Supply chain benefits will determine the managers' perception of FDI in Indian retail.
H_{03}: Pricing benefits will determine the managers' perception of FDI in Indian retail.
H_{04}: Economic and external factors benefits will determine the managers' perception of FDI in Indian retail.

The data analysis has been carried out using descriptive statistics (mean), correlation and regression analysis.

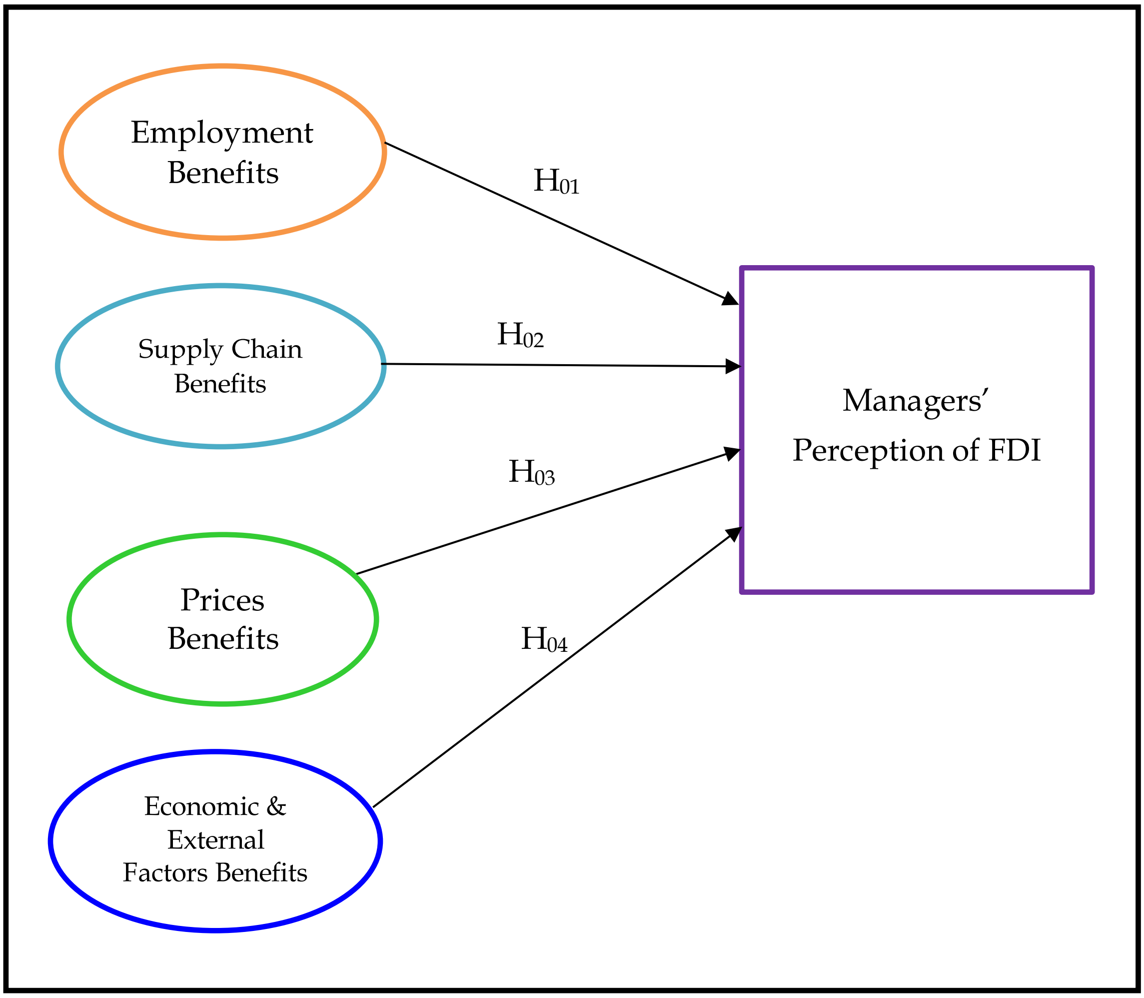

Figure 3: Conceptual model of various FDI benefits and managers' perceptions.

5. DATA ANALYSIS

Tables 1 to 6 present the analysis of data gathered from managers. Tables 1 and 2 show the age and educational profile of respondents. Table 1 shows that 38.6% of the respondents are in the age group 31-40 and 36.6% of the respondents are in the age group 41-50. Table 2, 67.3 % of the respondents are post-graduate.

Table 1: Age group

Age group	No. of respondents
20-30	17
31-40	59
41-50	55
51-60	22

Table 2: Education profile

Age group	No. of respondents
Undergraduate	42
Post-graduate	103
Ph.D.	8

Table 3 shows the mean of managers' responses and rank of each statement. The rank is decided on the basis of higher mean values. Higher rank means managers strongly agree with the respective statement.

Table 3: Managers' Perception of FDI in Indian retail

Item	People's Perception on FDI in Retail	SA	A	NAND	D	SD	Mean	Rank
	Employment benefits							
1	Better and more employment opportunities will be created by FDI in retail	84	33	19	8	9	4.14	2
2	The educated youth of the country will have jobs as a result of FDI in retail.	65	46	18	14	10	3.93	5
3	FDI in Retail will result in new short-term courses in retail at the college level.	22	18	30	31	52	2.52	10
	Supply Chain benefits							
4	Better control of intermediaries who dominate the supply chain will be helped by the FDI in retail	76	41	16	16	4	4.10	3
5	The present Public procurement and Public Distribution System (PDS) will improve with the help of FDI in retail	53	39	23	22	16	3.59	6
6	FDI in retail will assist in developing better Infrastructure facilities particularly logistics.	77	39	17	12	8	4.08	4
	Pricing benefits							
7	FDI in retail will make the products' prices more competitive.	21	30	22	34	46	2.65	9
8	Suppliers especially farmers will get better prices as a result of FDI in retail	87	32	14	13	7	4.17	1
	Economic and external factors benefits							
9	There will be an upward push to the GDP because of FDI in retail	41	43	27	26	16	3.48	7
10	FDI in retail will provide better technical knowledge and international exposure.	31	32	28	27	35	2.98	8

In Table 3, out of three statements on employment benefits, the mean score of Item 1 is above 4 on the Likert five-point scale. Therefore, most of the respondents strongly agree that FDI in retail will create better and more employment opportunities. The mean score of the other statement in Item 2 is 3.93, which shows a high level of agreement that educated youth of the country will have jobs as a result of FDI in retail. The last statement on employment benefits has a low mean score of around 2.5 (Item 3) which implies that respondents disagree that FDI in Retail will result in new short-term courses in retail at the college level.

Out of three statements on supply chain benefits, the mean score of Items 4 and 6 is higher than which implies that most of the respondents strongly agree that FDI in retail will enable better control of intermediaries who dominate the supply chain, and will assist in developing better Infrastructure facilities particularly logistics. The mean score of Item 5 is 3.59, which shows a high level of agreement that presents Public procurement and Public Distribution System (PDS) will improve with the help of FDI in retail.

The mean score of Item 8 in pricing benefits is above 4 which suggests most of the respondents strongly agree that suppliers especially farmers will get better prices as a result of FDI in retail. The mean score of Item 7 is 2.65, which shows disagreement over the statement that FDI in retail will make the products' prices more competitive.

The mean score of Item 9 in economic and external factors benefits is 3.48 which suggests a high number of respondents agree that there will be an upward push to the GDP because of FDI in retail. The mean score of Item 10 is 2.98, which shows mixed responses over the statement that FDI in retail will provide better technical knowledge and international exposure.

To sum up, managers show a favorable response towards FDI in the Indian retail sector and believe that FDI will bring many benefits to the retail sector and other areas of the Indian economy.

5.1 HYPOTHESES TESTS

As shown in Table 4 below, the value of the correlation coefficient, R= 0.548 which implies that a reasonable positive correlation exists between different factors and managers' opinions of FDI. However, there is 30.1% (R-square values of 0.301) variation in managers' perception of FDI caused because of factors like employment, supply chain, pricing, and economic and external factors.

Table 4. Relationship between various factors and managers' perception of FDI.

Model Summary				
Model	R	R square	Adjusted R square	Std. error of the Estimate
1	.548	.301	.281	.913

In Table 5, we have conducted multiple regression analyses to study the connection among various factors and managers' perceptions of FDI. Four factors have been suggested, and results are recorded in table 5. We see from F value (f = 16.496) that it is significant at 1 % level (sig. f < 0.01) with 4 and 195 degrees of freedom. This confirms the fitness for the model. As shown in Table 4 above, the adjusted R2 is 0.281. This implies that the four factors can significantly account for a 28.1% variance in the managers' perception of FDI.

Table 5: Confirm the model fitness (Analysis of variance).

ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	68.804	4	13.762	16.496	<0.001
Residual	161.820	195	.834		
Total	230.610	199			

The hypotheses were tested using linear regression with operationalized variables determined by considering the mean of the variables measured within each construct. The regression results for the hypotheses are shown in Table 6.

Table 6. Hypotheses test results from Regression analysis

Parameters	SE	Std. β	T	Sig.
Regression Constant	0.437		-0.273	0.748
Employment benefits	0.124	0.276	3.754	< 0.001
Supply chain benefits	0.108	0.056	0.684	0.514
Pricing benefits	0.087	0.264	3.564	< 0.001
Economic and external factors benefits	0.093	0.094	1.358	0.181

In Table 6, the hypothesis fits the data. It is also found that out of four parameters, only two have a significant impact on managers' perception of FDI in Indian retail.

The first parameter that is significant is *employment* (std. $\beta = 0.276$, t-value = 3.754, $p < .001$). Thus, we find that hypothesis H_{01} is supported. This implies that employment has a significant impact on the managers' opinion of FDI in Indian retail.

The second parameter is supply chain which is insignificant (std. $\beta = 0.056$, t-value = .684, $p > .001$). Thus, we find that hypothesis H_{02} is rejected. This implies that the supply chain has an insignificant impact on the managers' perception of FDI in Indian retail.

The third parameter is *pricing* which is significant (std. $\beta = 0.264$, t-value=3.564,$p < .001$). Therefore, only hypothesis H_{03} is supported.

The fourth parameter is economic and external factors which is insignificant (std. $\beta = 0.094$, t-value = 1.358, $p > .001$). Thus, we find that hypothesis H_{04} is rejected. This implies that economic and external factors have an insignificant impact on the managers' perception of FDI in Indian retail.

6. CONCLUSION

The permission by the Indian government to allow 100 percent Foreign Direct Investment via automatic route for single-brand retail trading contains an intrinsic value for the foreign retailing brands as well as the Indian customers – the foreign corporations are able to exploit the huge Indian market and the customers' benefits from superior quality products. The government's proactive approach has been appreciated by global retailers. Those who fear the adverse effects of FDI in the Indian retailing sector should look at the examples of Thailand and China. Those who are against the giant retailers should remember that India is an enormous market enough for both the foreign and the local businesses to co-exist. At the time when companies like McDs, KFC and other similar companies came to the Indian market; the opponents claimed that businesses of local Indian restaurants and small vendors will be finished. However, nothing of this sort was seen and all businesses have prospered. Even now, the local vendors remain the preferred food joints of Indians. Therefore, the giant retail stores should not be seen as a threat. The findings also suggest a favorable response of managers towards FDI in Indian retailing. It has been discovered that employment and pricing benefit significantly impact managers' perception of Foreign Direct Investments in the retail sector of India.

Foreign retailers are likely to bring in high proficiency in the manufacturing and sales process. Their entrance will also emphasize the requirement for connecting remote villages with cities through a better infrastructural network. Better inventory management and transport arrangements are expected in order to accommodate new foreign retailers. The connectivity between manufacturers, farmers and the organized retail chains is also expected to improve through new and innovative logistics and supply chain companies. This, in turn, will yield higher returns to manufacturers and farmers for their supplies. The Indian retail sector needs substantial capital, innovative technology, and best practices to reach its full potential, which is possible through FDI. Although the Indian government has made favorable policies for FDI, it remains to be seen whether the foreign retailers consider India as a favorable FDI destination to set up their businesses.

7. AVAILABILITY OF DATA AND MATERIAL

Data can be made available by contacting the corresponding author.

8. REFERENCES

Aggrawal, S., Singh, A., Aggrawal, R. (2012). 'Foreign direct investment in India', International Journal of Computational Engineering & Management, 15(5), 93-105.

Kearney, A.T. (2011). *Retail Global Expansion: A Portfolio of Opportunities*. Global Retail Development Index, A.T. Kearney.

Bhardwaj, V.T., Swaroop, G.M., & Vittal, I. (2005) Winning the Indian consumer, The McKinsey Quarterly, Special Edition, 43–51.

Consolidated FDI Policy Circular 1 of 2010 [online]. Department of Industrial Policy & Promotion, Ministry of Commerce & Industry Government of India. http://dipp.nic.in/English/Publications/Manuals/fdi_circular_1_2010.pdf

Devajit, M. (2012). 'Impact of foreign direct investment on Indian economy', Research Journal of Management Sciences, 1(2), 29-31.

Dikshit A. (2011). 'The Uneasy Compromise - Indian Retail', The Wall Street Journal.

Elahi, Y. A., Rehman, A., Misra, A. (2013). An Empirical Study of Businessmen's perception of various issues and challenges associated with FDI in Indian retail sector. *GBAMS: VIDUSHI*, 5(2), 59-70.

Fulzele, H. V., Zodage, B.V. (2013). Growth and Necessities of FDI in Retailing in India, *Research Front.* 1(1), 33-38.

Grover, G., Gupta, N.K. (2014). An Empirical Study on the Flows of FDI in India: with Special Reference to Retail Sector. International Journal of Management Research and Trends. 5(2).

Jain, M., Sukhlecha, M. L. (2012). 'FDI In Multi-Brand Retail: Is It The Need Of The Hour', Zenith International Journal of Multidisciplinary Research. 2(6).

Kumar, P., Bansal, S. (2015). SWOT Analysis: What does FDI hold for the Indian Retail Sector in 21th century? International Journal of Research in Management, Economics &Commerce, 5(1).

Manik, P., Singla, R. (2013) 'Qualitative Analysis of FDI in Indian Retail Industry', International

Journal of Computational Engineering & Management. 16(2).

Nasir, S. (2015). FDI in India's Retail Sector: Opportunities and Challenges. Middle-East Journal of Scientific Research. 23(3).

Press Note 3 of 2006, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India. http://dipp.nic.in/English/policy/changes/pn3_2006.pdf

Sailaja, K. (2015) Foreign Direct Investment Policy in Retail Sector', International Journal of Research and Development A Management Review. 4(3).

Sharma A., Sahu P. (2012). India Lifts Some Limits on Foreign Retailers. The Wall Street Journal.

Vyas, A.V. (2015). An Analytical Study of FDI in India, 2000-2015. International Journal of Scientific and Research Publications. 5(10).

Dr. Anis ur Rehman is an Assistant Professor of Business Management at University of Hail, Kingdom of Saudi Arabia. He has more than twelve years' experience of teaching Business Management at postgraduate and undergraduate levels. His research interest includes Marketing Management, Consumer Behavior, Public-Private Partnerships and Entrepreneurship. His Google scholar link is http://scholar.google.com/citations?user=EHG_cbsAAAAJ&hl=en

Faraz Ahmad Abbasi is a Lecturer at Department of Management and Information System, College of Business Administration, University of Hail, Hail, Kingdom of Saudi Arabia. His area of interest is Business Communication and Operations Management.