



## FDI in Retailing –A Stakeholders Perspective

Abstract:

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FDI is an important tool in the economic development of the nation. Contribution of FDI through financial resources, technology and innovative techniques raises overall productivity of diverse sectors of economy. However the FDI in retail is facing many challenges, due to the unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family owned business. Even though they are providing qualitative services to the customer at the same time the domestic firms in the sector is still underdeveloped and in nascent stage. In this paper it is proved that FDI in retail have its own benefits like tackle information with wholesale prices. And also inflow of technical know-how from foreign firms, like warehousing technologies and distribution system, supply chain, helpful to the farmers in eliminating the middlemen and also increase the fraction of the final sales prices that is paid to farmers. Therefore the present study is an effort to critically evaluate the effects of FDI policies in retail industry to its shareholders and also the policy framework of FDI in retailing.

**Key words: FDI policies. Retailing, Government**

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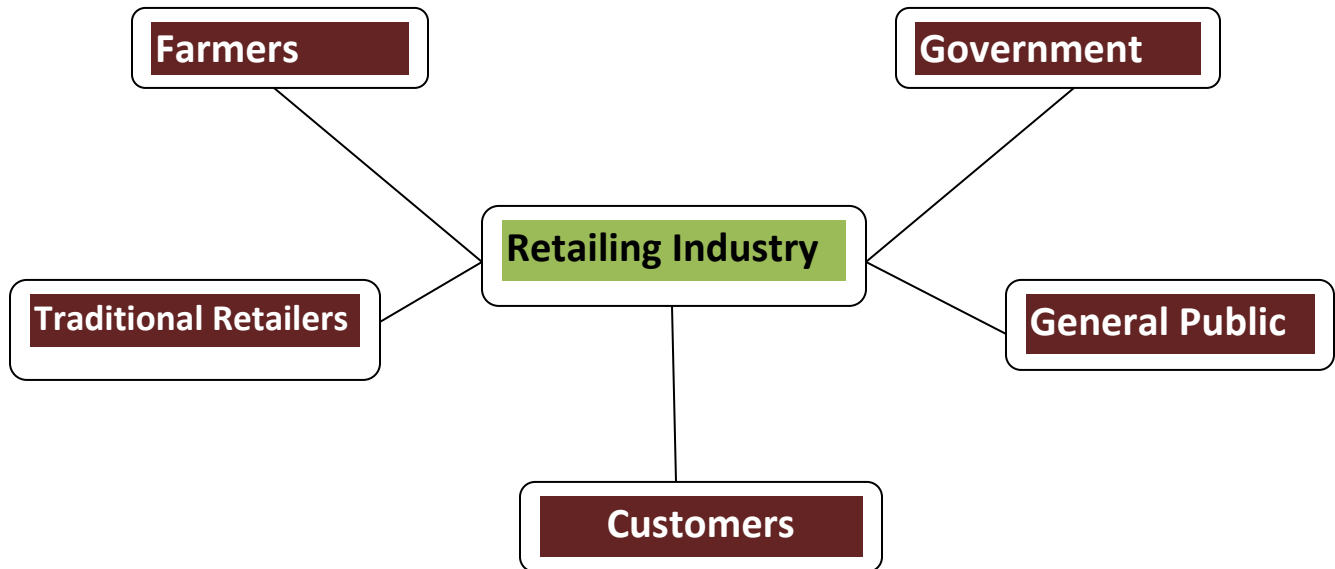


## 1. Introduction:

Indian liberalized policies & reform measures since 1991; the Economy has achieved marvelous growth rates over the last few years with many victory stories in many fronts. India's growing retail boom is one of such success stories. The reasons for this growth front can be identified as changes in income levels, lifestyles, taste & habits reflecting in strong consumerism with growing preference for superior quality and branded products, vast household market with a very competitive manufacturing base, through which India also observed a major retail boom in recent years<sup>(1)</sup>.

Being encouraged by India's growing retail boom many multinational companies like Walmarts, carryfore etc are entered into the market and brought tremendous changes in the sector. And also many players are preparing to enter India's retail market. Indian Industry, by and large, has also hailed investment from abroad which has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, Business, employment, demand, consumption and income with multiplier effects. Government has also taken a number of pro- active policy measures in order to heartening growth of retail business. Major developmental measures can be said as allied activities like creation of the required infrastructure facilities, centers of manufacturing excellence, providing for a good network of production, marketing, storages, allocation and cold chain amenities for spreading the effects of development to downstream level for comprehensive growth. After long controversies in 2011 government has taken a bold decision to allow 100% share of FDI in retailing in multiband retailing and also cash and carry also. The Confederation of Indian Industry (CII), while supporting the Government of India's decision on opening of FDI in retail and the latest notification, urged on the government for earlier and speedier discharge of the decision in the glow of the overall benefits for trade, business manufacturing, both large corporate and SMEs and a vast segment of the consumers in the country <sup>(2)</sup>.

### 1.1 Retailing industry and its major Shareholders



### 1.3 FDI in India- A regulatory Framework

**Indian companies can receive FDI under two routes-**

**1. Automatic Route** – this route can be utilized by the retailers with consideration of the provisions of consolidated FDI policy provided by government of India from time to time however this route does not require prior approval either from the Reserve Bank of India (RBI) or government

**2. Government Route** – Prior approval from FIPB, Ministry of Finance or SIA, DIPP is required for the investment in the capital of resident entities by non-resident entities. FDI in sectors, not covered under automatic route requires prior approval of the government which is considered by Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance<sup>(3)</sup>.

### 1.4 Renewing and monitoring agencies for FDI in India

#### 1. Ministry of Commerce and Industry, GOI

The Ministry of Commerce and Industry, it acts as a nodal agency which reviews FDI policy on permanent and periodical basis. This body declares its policy on FDI through press notes/press



releases. This will be notified by RBI. The regulatory framework consists of FEMA, circulars and clarifications etc

## **2. RBI (Reserve Bank of India)**

Along with FEMA and directorate of enforcement under the ministry of finance, RBI facilitates external trade and payment and promotes orderly develops and perpetuation of foreign exchange Market in India. RBI issued procedural directions through series of circulars. FEMA has been substitution to earlier FRA in 1999 but it came into existence from 2000. Any violation in FDI regulations are covered by the penal provisions of FEMA.

## **3. FIPB (Foreign Exchange Promotion Board)**

FIPB as a board set up under Department of Economic affairs, ministry of Finance and Government of India. Under this board the FDI is not allowed to access through automatic route instead FIPB comprises of secretaries drawn from different ministries. This inter ministerial body examines and discusses proposals for FDI in country. FIPB has powers to consider recommendations up to Rs.

## **4. DIPP (Dept of Industrial Policy and Promotion)**

DIPP established in 1995 and reconstituted in 2000, this body develops the policies and strategies for industrial development in the country with the development of national objectives. The body not only plays a key role in formulation of FDI policy but extends to approve and facilitation of FDI and resolving problems faced by foreign investors in execution of their projects through FIIA<sup>(4)</sup>.

## **2. Research Design**

### **2.1 Review of Earlier Works**

N.V Shaha & M.A Shinde (2013) in their study on “**FDI in Indian Retail Sector: A Critical analysis**” have discussed both positive and negative aspects of FDI in Indian retail. Positive aspects are highlighted as increased investments in the supply chain and word class cold storage facilities, reduced wastage during the transportation, better options to the customers, increase in economic growth by dealing in various international products, it is expected to increase 1 million



employments in next three years & agriculture related people will get good price for their goods. And also negative aspects are discussed like it will affect 50 million retail small merchants in India, profit distribution and investment ratios are not fixed, economic backward class persons may suffer from price raises in future, rural farmers will affect from FDI policies, human resources policies are not mentioned clearly. Hence it is suggested that, in order to overcome from these problems policies must be reframed <sup>(5)</sup>.

**RajibBhattacharya (2012)** in his study on the “**Opportunities and challenges of FDI in Retail**” in India have discussed that the growth of FDI in the global economic landscape acts as a major channel in the progress of a country in terms of up-gradation of know-how, managerial skills and capabilities in various sectors. At the same time the author has discussed that the FDI in retail sector is expanding the markets by reducing transactional and transformational cost of business through eliminating the role of middlemen and espousal of superior supply chain and benefit to the farmers and other suppliers to the end users. At the same time the sector is also suffering from some of the challenges like service victims. Promotion of injurious competition among organized domestic retailers ensuing in exit of small domestic retailers from the markets which leads to distortion of urban cultural development <sup>(6)</sup>.

**Dr. Deepali Moghe (2010)** in their one of the articles discussed that FDI in retail is extremely much controversial issue which needs to be consider the interest of stake holder. To allow the entry of foreign players in Multi Brand Retailing is clearly a milestone for Indian retail sector. The study also highlighted that, many strong retailers can come into India and they can transform the entire retail industry through employment creation and also customer choices <sup>(7)</sup>.

**Sanjay kumar dhanwani (2013)** in his article discussed that from the regulatory frame work of FDI in retailing entry of FDI in multiband retailing will affect the traditional retailing. These players have close affiliation with the customers and aware of their demand need to develop the modern trend in retail. Practically the research stressed that, most of the consumers are unwilling to shop at organized retail shop by spending more time. Whatever may be the opening, there should be a healthy competition which would change the retail industry. FDI made many industries modernized in present era. Many developed economies are experienced it India is also one among these countries <sup>(8)</sup>.



## **2.2 Research gap:**

From the above literature review it is obvious that many of the research studies carried on the topic but they have done their analysis on secondary data. However the studies are not taken into consideration separately all the stake holders and their opinion. Therefore the present study is an attempt to study the FDI policies implemented by the government and also the opinions of the stakeholders are also considered to give meaning to the study.

## **2.3 Objectives of the Study**

1. To study and analyze the regulatory framework and authorities governing the FDI policies for retail industry in India
2. To highlight the advantages and disadvantages of FDI in Indian retail sector.
3. To critically examine the impact of FDI on stakeholders of Retailing Industry in India

## **2.4 Scope of the Study**

The scope of the present study is covered the impact of FDI in retailing on various stake holders of the industry like Customers, Government, Farmers, general public, and unorganized retailers. Since the opinion has been taken by the above said stakeholders and in addition to that academicians are also included to discuss the impact of FDI on government. And the geographic scope of the study is limited to Shivamogga city.

## **2.5 Methods of Data Collection**

In order to reach above stated objectives the primary data is collected through Schedules and interaction with the respondents. Secondary data is collected through published sources like Journals, Books and e-sources.

## **2.6 Sampling Techniques adopted**

For this study simple random sampling was is used and respondent groups had employees, housewives, Farmers, business men of various income groups and academicians of various colleges and universities of economics, management and commerce, were selected randomly and discussed with the schedules prepared.



## 2.7 Statistical tool used for analysis:

In order to prove the Hypothesis simple one sample t-test is used. Test is done through the SPSS software

## 2.8 Hypothesis tested

The researchers tried to identify the respondent's opinion regarding few vital aspects concerning the stake holders in the studied market segment. Hypothesis tested are,

- a.  $H_0$  =Effects of FDI in Retailing on **Farmers** is insignificant
- b.  $H_0$ = Effects of FDI in retailing on **Government** is insignificant
- c.  $H_0$ = Effects of FDI in retailing on **General Public** is insignificant
- d.  $H_0$ = Effects of FDI in retailing on **Customers** is insignificant
- e.  $H_0$ = Effects of FDI in retailing on **Traditional retailers** is insignificant

## 3.Results and Discussion

### 3.1 Discussions

Anusha Chari, TCA Madhav Raghavan (2011) have discussed that FDI in retail is facing many challenges at the same time it has many advantages also. Advantages are considered like tackle inflation with wholesale price, inflow of technical know-how from foreign countries, good supplychain and cold storage facilities etc. and challenges are discussed as exit of domestic retailers from the industry due to the tough competition, unfair competition.

N.V Shaha and M.A Shinde (2013) have opined that FDI in retail in India have both positive and negative effects on the economic environment of the country. At the same time the study highlights the positive aspects like supply improved chain and cold storage facility facilities, improved customer choice, reduced waste while transportation, increased economic growth, and increased employment opportunities. However the negative aspects are discussed as effect of FDI on retailing on 50 million small merchants, effects on rural farmers, human resource policies are not mentioned.

Rajib Bhattacharya (2012) has opined that FDI in retailing is a growth agent for India economy through up gradation of technology and managerial skills and also FDI in retailing expanding the



retail market by reducing transactional and transformational cost of business. And at the same time FDI in retailing is helpful to the farmers in many fronts.

From the above discussions it is clear that many researchers have contributed to the field and they have concentrated on only the advantages and disadvantages of FDI in retailing in general. Therefore the present study contributed to the field by considering all the stake holders of the industry separately and both advantages and disadvantages are highlighted by taking their opinions and analyzed below.

### 3.2 Hypothesis Testing

#### a. FDI in Retailing and Farmers

H0 =Effects of FDI in Retailing on **Farmers** is insignificant

H1= Effects of FDI in Retailing on **Farmers** is significant

One-Sample Test						
Farmers	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Increased demand for the Products	21.820	99	.000	1.690	1.54	1.84
Reasonable Price	24.470	99	.000	1.670	1.53	1.81
Reduced middleman interference	26.161	99	.000	1.810	1.67	1.95
Increased Profit	22.798	99	.000	1.680	1.53	1.83
Less Risk	18.655	99	.000	1.720	1.54	1.90
Financial Support	26.921	99	.000	1.850	1.71	1.99

Source: Survey data SPSS output

**Inference:**From the above calculations it is clear that the null hypothesis is rejected and alternate Hypothesis is accepted. Hence it can be said that Effects of FDI in Retailing on **Farmers** is significant. However the FDI in retailing in both single and multi brand retailing will be significantly affects the farmer community as the majority of retail organizations are directly procuring the necessary products from the farmers surrounded through contract farming and forward contract, by which the farmers will be getting qualitative pesticides and techniques





supported by the retail organizations. At the same time they are risk free and benefited by the financial support and they can also increase the profit as before. As they are directly doing their business with the organizations, middleman interference is also reduced. Hence it is proved that the FDI policies of the government in retailing sector are boon to the farmers.

**b. FDI in Retailing and Government**

H0 =Effects of FDI in Retailing on **Government** is insignificant

H1= Effects of FDI in Retailing on **Government** is significant

One-Sample Test						
Government	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Collection of Tax	28.364	99	.000	1.820	1.69	1.95
Increased GDP	30.461	99	.000	1.870	1.75	1.99
Employment Generation	23.014	99	.000	1.910	1.75	2.07
Infrastructure Development	33.456	99	.000	1.770	1.67	1.87
Economic Development	30.029	99	.000	1.740	1.63	1.85

Source: Survey data SPSS output

**Inference:**From the above calculations it is clear that the null hypothesis is rejected and alternate Hypothesis is accepted. Hence it can be said thatEffects of FDI in Retailing on **Government** is significant. However from the entry of the foreign players in the sector, domestic players are also increasing their capacity to compete with them. Hence the collection of tax to the government is increased. At the same time employment opportunities are increased. GDP rates are also increased through which economic development of the nation is assured and infrastructure development as well.



**c. FDI in Retailing and General Public**

H0 =Effects of FDI in Retailing on**General Public** is insignificant

H1= Effects of FDI in Retailing on **General Public** is significant

One-Sample Test						
General Public	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Employment Generation	29.087	99	.000	1.820	1.70	1.94
Improved Product quality	25.354	99	.000	1.990	1.83	2.15
Availability of foreign Brands	29.661	99	.000	1.680	1.57	1.79
Infrastructure development	16.649	99	.000	1.780	1.57	1.99
Economic Development	28.266	99	.000	1.690	1.57	1.81
Selection Opportunities	24.426	99	.000	1.690	1.55	1.83

Source: Survey data SPSS output

**Inference:** From the above table it can be clear that null hypothesis is rejected and alternate Hypothesis is accepted. Hence it can be said thatEffects of FDI in Retailing on **General Public** is significant. However the foreign players and also domestic organized retailers are creating a plat form to the general public by creating employment opportunities and also making the foreign brands available in the market at reasonable price. And infrastructure development like roads and other facilities are also taken place. At the same time the public’s are getting qualitative products and they can have their own choices as the number of the brands are increased. Even though they have are not qualified any professional degree the people are earning their lively hood by which their standard of living and also economic development could be taken place.



**d. FDI in Retailing and Customers**

H0 =Effects of FDI in Retailing on **Customers** is insignificant

H1= Effects of FDI in Retailing on **Customers** is significant

One-Sample Test						
Customers	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Availability of Qualitative Products	25.795	99	.000	1.700	1.57	1.83
Improved Service Quality	17.198	99	.000	2.200	1.95	2.45
Good Shopping Experience	33.984	99	.000	1.780	1.68	1.88
Availability of Multi Brands	25.839	99	.000	1.850	1.71	1.99
Variety of Goods	32.883	99	.000	2.010	1.89	2.13
Festival Offers	22.738	99	.000	2.030	1.85	2.21

**Source: Survey data SPSS output**

**Inference:** From the above table it can be clear that null hypothesis is rejected and alternate Hypothesis is accepted. Hence it can be said theEffects of FDI in Retailing on **Customers** is significant. However the customers can be considered as the major stake holders of any industry, satisfaction of the customers plays a vital role in the increasing the productivity of the organization. Therefore, from the opinions taken by the customers of the organized retailers it can be clear that they are very much satisfied with the performance of the organized retail organizations and due to the entry of foreign players they are getting foreign brands and products in reasonable prices at the same time qualitative products and festival offers are available by which they are getting good shopping experience under one roof.

**e. FDI in Retailing and Unorganized Retailers**

H0 =Effects of FDI in Retailing on **Traditional Retailers** is insignificant

H1= Effects of FDI in Retailing on **Traditional Retailers** is significant

One-Sample Test						
Traditional Retailers	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Increased Competition	34.186	99	.000	1.760	1.66	1.86
Lack of Financial Support to develop the Business	34.535	98	.000	1.657	1.56	1.75
Less Demand	24.912	98	.000	1.889	1.74	2.04
Low Prices	27.341	98	.000	1.960	1.82	2.10
Lack of Technological Support	22.699	98	.000	1.919	1.75	2.09

Source: Survey data SPSS output

**Inference:** From the above table it can be clear that null hypothesis is rejected and alternate Hypothesis is accepted. Hence it can be said theEffects of FDI in retailing on **Traditional retailers** is significant. But the unorganized retailers says that the entry of foreign brands are posing competition, but lack of financial support and technology they cannot cope with the competition therefore their products are not demanded and if demanded that is for low price. Therefore it can be concluded here that the unorganized retailers are effected badly by the entry of foreign players.

**4. Conclusion:**

FDI is an imperative tool in the economic development of the nation. Contribution of FDI through financial resources, technology and innovative techniques raises overall productivity of varied sectors of economy. If properly navigated, it also acts as a mechanism for development of sectors such as agriculture, manufacturing, service, SME and many more. Due to the liberalized policies in retailing sector is provoked with steady entry of top global retailers such as Wal Mart, Tesco, Carrefour and many more in last couple of years despite conservative approach of the government, the sector has become more charismatic for research study. The recent decision of Indian government of opening up the sector for FDI in single and multi



brand retail has stimulated up the heat with intense demonstration activities witnessed all over India. At the same time the stakeholders of the sector is also affected positively except the traditional retailers. Therefore by keeping in view the advantages and benefits of the FDI policies in retailing it is suggested to the government and other financial institutions that they have to provide financial assistance to the small traditional retailers to get technological advancement and also to face the competition posed by the foreign players in the sector. Finally it can be concluded that opening up of FDI in retailing will open the door for large investment in the sector through huge employment opportunities, increased standard of living of people and also improved technical knowhow.

#### **4.Limitations of the Study**

The study is limited to the geographic scope of shivamogga district only. Therefore the findings cannot be generalized to other places. The study is based on the opinions provided by the target respondents.

#### **5. Scope for Further Research**

Respondents considered for the present study is limited to 100 and also the study is only covered the geographical area of Shivamogga city. Further study can be done for various metro and Cosmo cities in India by applying various models available.



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