

# Impact of FDI on Retail sector in India



Mohammed Shahfaraz Khan

**Abstract:** In this study impact of FDI on retail sector was assessed. Data from primary (n = 110) as well as from secondary sources was collected and analyzed through SEM in Lisrel 8.80. The reliability and validity of scales was assessed. For secondary analysis SWOT analysis was performed. In last we have tried to justify the research design for this research. Before conducting any research the researcher is supposed to have a research design on which the entire research is based.

**Keywords:** FDI, Retail, MNCs, Portfolio investments, foreign institutional investments

## I. INTRODUCTION

FDI is an important source of development for any nation. The inflow of funds through FDI is usually large and in different sectors. The volume of FDI in retail sector is largest comparatively. Therefore this study tries to establish a link between FDI and development of different sectors of retail [2].

## II. FRAMING LITERATURE

FDI usually refers to investments pertaining to huge capital investments and these capital investments leads to ownership in those sectors [7]. The peculiarity of FDI lies in the fact that this kind of investments gives the investor an opportunity to strong foothold in the distant markets. In last 20 years FDI paved the way for several MNCs to capture the market in india. The things firms usually see in any potential market is (a) safety of capital (b) psychic distance (c) location advantages and many more. However safety of capital records highest significance when it comes to FDI.

## III.FDI POLICY IN INDIA

As it is well documented and historical fact piece that in 1991 India was passing a great deal of crisis during 1991 as there was a deficiency of foreign exchange reserves with the central bank of the country. The Indian finance ministry had one week's debt service reserve remaining and the crisis was deepening. The authorities had approached IMF, World bank and even Bank of England offering large sums of collateral security for debt financing but refused, Indian govt was left with no choice but to do policy reforms at the transformational level on the suggestions of World bank[8]. Under these policy reforms regulation on FDI eased and paved the way for Indian retail sector development. These reforms were mainly focused on monetary and fiscal policies of the country.

Manuscript published on November 30, 2019.

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## IV. PRESENT FDI POLICY FOR RETAIL SECTOR IN INDIA

Present FDI policy of India is formulated and developed on the foundations of policy reforms of 1991.

The present policy of FDI regarding retail sector is inclusive and liberalized, it facilitates huge FDI investments in retail sector.

As the Indian retail sector is growing at a very fast rate and with the passing of every single day new customer base of at least 3lacs new customers emerges PAN India. To cater these customer needs and demands it is essential to have large investments in the form of FDI [9].

## V. RESEARCH OBJECTIVES

- To investigate the impact of FDI on Indian retail sector.
- To review the extant literature in the area of FDI and retail.
- To develop measures for FDI and types of retail sector.
- Assessment of unidimensionality, reliability and validity of the above scales.

## VI. RESEARCH DESIGN

The research design is single cross sectional. The study is based on the data collected time period from 2014-2019. The sources are

- Websites of various Government institutes Like: RBI, Ministry of Commerce, SEBI, EXIM Bank, DIPP etc.
- Journals related with FDI,

## VII. SWOT ANALYSIS OF RETAIL SECTOR.

The SWOT Analysis is an essential pre research tool, it gives the insight about the problem []. Therefore SWOT was performed for FDI in retail sector.

### a) Strengths

They are the positive factors and aspects of any firm by which it enjoys the competitive advantage over the other firms. We can say that the strengths of any firm shows the upper hand over the other firms. nIndian retail sector is considered as the unorganized sector it looks like a disadvantage or threat but if we see the future of the sector in India so we can say that there is no limit of growth in Indian scenario. In India the retail sector is growing at a very fast speed and it is moving towards the organized sector. Ultimately it will lead to the overall development of the Indian economy.

**b) Weaknesses**

Weaknesses are the just opposite of the strengths. So weaknesses of the firm are those things which lead to the disadvantage of any firm over the others. Weaknesses lead to resist the growth so within the timeframe the weaknesses of the Indian retail sector are not removed many problems could be emerged. Which lead to the low internal capital flow of the FDI in the country.

**c) Opportunities**

Strengths and weaknesses are the internal matters of any organization and they can be controlled while on the other hand opportunities and threats are related with the external environment of any economy and they are uncontrollable. So we can say that opportunities are those things which could be exploited by the company or the company can take the advantage of the prevailing environment in any country. India is considered as the land of the opportunities. It is the home of hundreds of the multinational corporations. In this way we say that after the changes of the policy in FDI lots of opportunities has been evolved.

**d) Threats**

As we have discussed above threats are related with the external environment and they are uncontrollable. Threats are just opposite of the opportunities. Threats mean the obstacles which come on the path of any organization and they resist the organization to grow and develop. Globalization is a boon for the developing and underdeveloped countries especially for the country like India. But besides the advantages the globalization also has a negative impact on the country. MNC's are having the latest technology and they are not facing any scarcity of the capital. But in case of Indian companies they are struggling for their existence in front of the foreign players.

After the detailed study of the FDI, it is very important to analyze all the positive and negative aspects. The population of India is about 121 crore. Indian govt. has allowed 51% FDI in multi-brand and 100% FDI in single brand. So, we have reached on the conclusion that other than India, all countries have allowed 100% retail in both formats but in case of India only 51% FDI is allowed in multi-brand retail. If the govt. allows 100% FDI in the same sector then it will leave a positive impact on many sectors of the country.



**Fig 01: Showing inflow of FDI in different retail sectors**

The above picture depicts the impact of FDI in different sectors. If we see the effect of FDI on different sectors one by one we can say that the greatest impact of FDI will be on the employment. And the international retailers like to work with a small group of vendors for the economies of scale. After that Infrastructure will be affected upto a certain limit. The reason behind is that in India there are no rules and regulation regarding the investment of the capital in the infrastructure. A very limited impact will be on the small manufacturers of the country because the foreign players bring technology with them [16, 18].

As far as the small shops are concerned, we can say that kirana stores will also be effected limited only. They operate in small towns and rural areas, and serves the lower social class customers as well. Modern retail will target the top income layers in urban areas. The major impact of FDI will be on the basic sectors of the economy firstly service secondly manufacturing. If we talk about the service sector then we can forecast the future that kirana stores will be mostly affected because these kirana stores have the major share that is about 93%. People will buy the goods from the malls and this will negatively impact them. Secondly Indian small manufacturers will face a tough competition from the foreign retailers. In light of the above framework conceptual model was framed and tested by collecting data from 110 respondents.

**VIII. DATA COLLECTION**

The data was collected through questionnaire from 110 respondents and analysis was carried out by using Lisrel 8.80. The data was collected from primary and secondary sources mainly from managers working in international retail outlets [6].

The data was collected through mail methodology initially 250 respondents were contacted and 115 responses were received, out of them 5 questionnaires were incomplete and discarded from final analysis. Final usable questionnaires were 110.

The Research instrument was designed after considering extant literature review, brainstorming sessions and various discussions with academicians, practitioners and researchers in the area. The research instrument thus finalized was put to pilot test comprising 15 respondents and responses were analyzed, thereafter full model with control variables was assessed but it was found that there was little correlation between the model and control variables therefore it was decided to drop them before final analysis.

**IX. CONCEPTUAL FRAMEWORK**

**FDI= F [SM, KS, I, JB] where,**

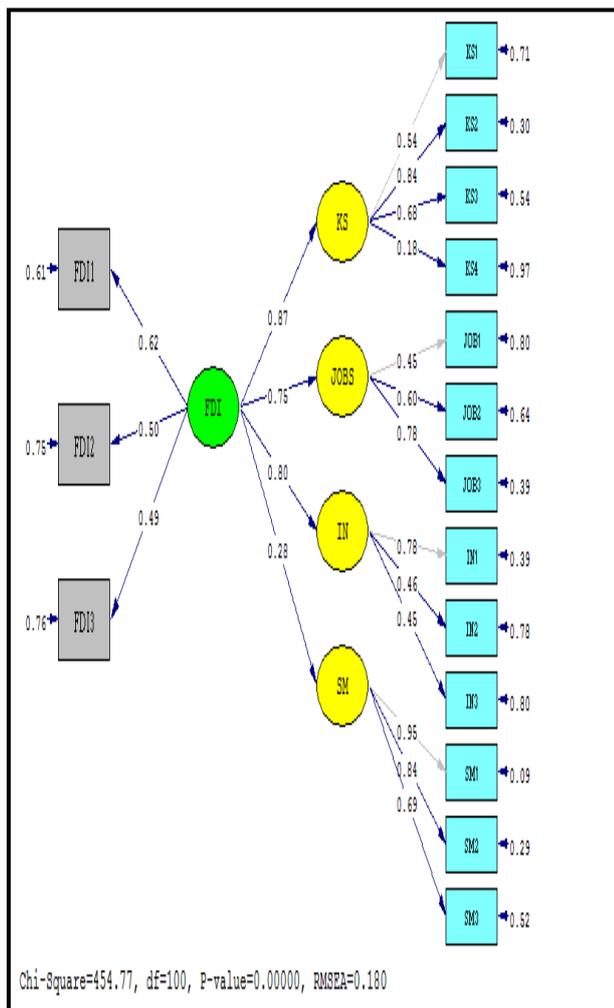
**SM= Small Manufacturers**

**KS = Kirana Stores**

**I= Infrastructure**

**JB= Jobs**

**Fig 02: Measurement Cum Structural Model For All Research Constructs**



**VI. MEASURES**

**Independent Variable**

**FDI Direction (FDD)**

The inflow of FDI was calculated by summing portfolio investment and institutional investments.

**Dependent Variables**

**Retail sector (RS)**

The impact of FDI was assessed on different sectors of retail sector namely, **SM= Small Manufacturers, KS = Kirana Stores, I= Infrastructure, JB= Jobs**

**VII. CONCLUSION AND DISCUSSION**

Apparently it was observed that FDI direction is significant in all the sectors. The items used to measure FDI flow emerged unidimensional and same case was found for other dependent variables. All the values were in acceptable range. As it was conceptualized that FDI direction remains huge to Small Manufacturers, Jobs, Infrastructure and Kirana or retail stores. The results are quite obvious registering highest FDI in retail outlets (\*.87), then in Jobs (\*.80) then in Infrastructure (\*.79) and least in Small manufacturers sector (\*.28). The model fit was good registering .89 GFI, .90 NFI, .88 NNFI and .79 for CFI, chi square for the model was 454 with 100 degrees of freedom. Initially the measurement model was assessed and after ascertaining reliabilities and validities structural model was assessed, under measurement model independent and dependent variables was incorporated and the final model was performed. The final model for the above research constructs gives the best fit and the results were interpreted from them.

**VIII. RECOMMENDATIONS TO THE MANAGERS AND RESEARCHERS**

The reality is too different from the reports so, we can say that the data which is available is not the true representative of the happenings in the society. So, before taking any decision and formulating the strategies the managers are supposed to study only authentic and reliable journals and magazines. Sometimes the things are not applicable at very time and at everywhere. These are the things which should be taken into the consideration.

The researchers are supposed to cover all the aspects and factors so that his/her research work could be of some importance. In order to improve the quality of the research, the researcher may include the trends of FDI and the Indian retail sector could be compared with the other Developing Asian countries like China so that a clear cut image of the whole region may appear. The researcher may also include the Hypothesis so that the perceptions and supposition could be proved

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