FDI in Multi-Brand Retail – Imperative or Still an Option for India!

Apeksha Somwanshi* **and Gopa Das****

E-mail: apeksha.somwanshi@gmail.com; gopa.das10@gmail.com

ABSTRACT

Indian retail is one of the most sought after sectors that carry great potential for attracting FDI and is considered as the sunrise sector in India. India has taken a big leap in the retail sector especially in the 21st century which has attracted many foreign eyes. Rise in population, increased per capita Income, urbanization & changing consumer needs are the major factors contributing to this change. The positive response has also encouraged intense lobbying by certain sections for opening FDI in this sector. At present India does allow 51% FDI in multi-brand retail and permits 100 % in single brand retail. Despite a conservative approach from the Indian government, steady presence of global brands like Tesco, Carrefour and other top international brands has made this sector fascinating. The recent decision of Indian government to open the retail sector for FDI in multi brand retail has stirred up the heat with mixed responses from all over India. A strong lobby has also been opposing the idea tooth and nail. There are reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities for Indians. However, the government in a series of moves has opened up the retail sector slowly to FDI. This paper makes a modest attempt of developing

* Department of Management, Sinhgad Institute of Management and Computer Application (SIMCA).

** Department of Management, Sinhgad Institute of Management (SIOM).

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 1–14

an insight on the trends in the Indian Retail Industry through research on both primary and secondary data using questionnaire method along with extensive review of literature. This method was chosen because it provided in-depth data about basic views and assumptions of consumers from their own perspective through interactions and direct observation. The research attempts to highlight if the global players can take a bite of the Indian Retail markets or. India still a chance of accepting and implementing this change at snail pace.

Keywords: FDI, Multi Brand Retail, Organized Retail, Unorganized Retail, Retail in India

Introduction

The retail sector has been at the helm of India's growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength. Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top seven retail markets in the world by economic value. India is one of the fastest growing retail markets in the world and the retail sector employs a huge number of people estimated at 44 million in the latest National Sample Survey. Organized retail is expected to fetch large number of workers and thus, large number of new jobs will be generated due to large size, economies of scale in organized retail and its capital intensity.The face of the Indian retail industry is changing. A number of changes have taken place on the Indian retail front such as increasing availability of international brands, increasing number of malls and hypermarkets and easy availability of retail space. With the Indian government having opened up the doors for FDI, the entry of foreign retailers into the country has become easier. India has come a long way from the traditional Kirana stores and is on its way to becoming a 'mall country'. India has a large middle class as well as youth population, which has contributed greatly to the retail phenomenon.

Objectives of the Research

1. To study customer preference for Retail in India.

2. To determine factors influencing consumers to buy from the organized and unorganized retailers.
3. To analyze awareness of customers regarding FDI in multi brand retail.

What is Retailing?

Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures the products themselves, and then sells these directly to consumers. It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet, where the buyer intends to consume the product. In majority of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not a manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement. Retailers extend many benefits to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

Organized and Unorganized Retail in India

The Indian retail market, variously estimated at $400-450 billion, is dominated by the highly decentralized and unorganized sector. The small retail outlets, most of them family-owned businesses (majorly known as 'KIRANA shops' or 'mom-and-pop stores'), account for about 95 percent of the sales. In the past decade, India has witnessed development of organized retailing, which has encouraged large private sector players to invest in this sector. Recognizing the short-term and long-term potential of organized retail in India, a number of top business houses have entered the retail industry. Some like Food world, Crossword, Globus, Pantaloon Retail, Shopper's Stop and Pyramid Retail have established themselves in the industry for a decade. Others like Reliance Retail Ltd. (RRL) have entered and Birla and Bharti opened up a number of stores across the country. The share of organized retailing in India, at around 2%, is too

low, compared to 80% in the USA, 40% in Thailand, or 20% in China, thus leaving the huge market potential largely unexploited. Mounting earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are burgeoning as an outcome. Retailing through supermarkets, hypermarkets, department stores and other forte chains are escalating. As retail giants such as Tesco and Marks & Spencer have already made inroads into the Indian retail industry the market is expected to get stronger.

Definition of Organized Retail

'Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail.' (ICRIER – Indian Council of Research in International Economic Relations)Organized retail sector refers to the sectors undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate retail formats of the exclusive brand outlets, hypermarkets, supermarkets, departmental stores and shopping malls.

Definition of Unorganized Retail

Unorganized retailing, refers to the traditional formats of low-cost retailing, for example, hand cart and pavement vendors, & mobile vendors, the local Kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hardware shop at the corner of your street selling everything from bathroom fittings to paints and small construction tools; or the slightly more organized medical store and a host of other small retail businesses in apparel, electronics, food, etc.

Percentage of Retail in Organized/Unorganized Sectors

The study brought by the Associated Chambers of Commerce and Industry of India (ASSOCHAM), points out that retailing in India is characterized by a high degree of fragmentation with street markets and

convenience stores (kiranas) accounting for more than 96% of retail business. Unorganized retail sector is still predominating over organized sector in India. Organized retail which presently accounts for close to 4 percent of total market will increase its share to over 30 percent by 2013, offering huge potential for growth in coming years, says a study, 'Indian Retailing – The way forward' (ASSOCHAM – Associated Chambers of Commerce and Industry).

What is FDI?

FDI is defined under Dictionary of Economics as Investment in a foreign country through the acquisition of a local company or the establishment thereof an operation on a new site. It refers to capital inflow from abroad. It is a form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of a foreign firm.

In effect, this is like any regular enterprise that invites investments and then grants the donor of that investment a certain degree of control in the enterprise, along with a share of profits as well, even though this depends on the policy of profit repatriation in that country. The only difference here is that the investor is actually a foreign party. As a result of this, different rules, policies and governing factors come into play in such a scenario. Both the parties involved derive many benefits from such an arrangement. On the other hand, both parties also suffer some disadvantages due to this process, so they have to take a decision after carrying out a balanced analysis.

FDI in India

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. According to a recent survey by the United Nations Conference on Trade

and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment.

What is Multi Brand Retail?

Multi brand retailing relates to marketing of two or more similar and competing products, by the same firm under different and unrelated brands. While these brands eat into each others' sales, multi-brand strategy does have some advantages as a means of:

- Obtaining greater shelf space and leaving little for competitors' products,
- Saturating a market by filling all price and quality gaps,
- Catering to brand-switchers who like to experiment with different brands, and
- Keeping the firm's managers on their toes by generating internal competition.

Research Methodology

This study has been done in two parts. In part 1 secondary data has been used from different studies, research papers, journals and websites and the second part consists of survey of 100 customers from organized and unorganized sector in Pune City.

(i) Sampling Unit: Customers from different demographics were chosen.

(ii) Sampling Method: Convenience Sampling.

(iii) Method of data collection: Questionnaire

(iv) Type of Questionnaire: Structured questionnaire with suitable scaling.

(v) Type of questions: Close ended Likert scale and multiple choice questions.

Data Analysis and Interpretation

I. Customer Choice of Retail Format (Ref. Fig. 1)

17% customers prefer unorganized retail shops, 69% customers prefer organized retail shops, 14% customers are not sure.

Interpretation: It is observed that maximum customers are inclined towards Organized Retail.

Figure 1: Choice of Retail Format

II. Customers Preference of Retail Stores for Purchase of Consumer Durables, Daily Need Items and Medical Items (Ref. Fig. 2)

63% customers purchase from organized retail as against 37% who buy it from local Grocery stores.

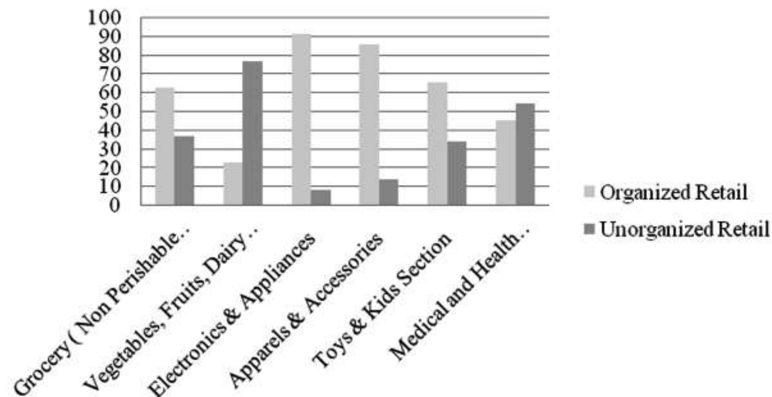


Figure 2: Preference of Selection of Retail Outlet for Listed Items

Interpretation: It is observed Customers prefer shopping from Organized Retail Outlets for Consumer Durable items but stick to Unorganized retail

outlets for purchase of Daily need items and medical items. Surprisingly, grocery sales in organized retail have edge over unorganized retail.

III. Purpose of Visit to Malls (Ref. Fig. 3)

54% Customers visit mall for Shopping while 29% visits for Entertainment, 26% visits for Window shopping and Eating Out.

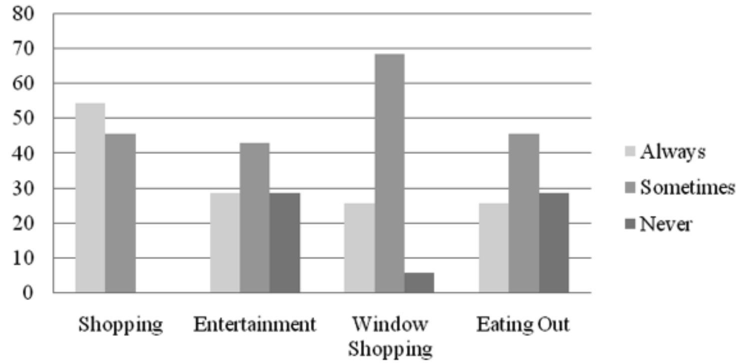


Figure 3: Purpose of Visit to Malls

Interpretation: Maximum customers prefer visiting mall for Shopping and Window Shopping.

IV. Factors Influencing Selection of Organized Retail (Ref. Fig. 4)

74% customers prefer organized retail for 'Product Assortments' followed by 71% for 'Offers and Discounts', 69% for 'Everything under 1 Roof' and 57% for 'Store Location'.

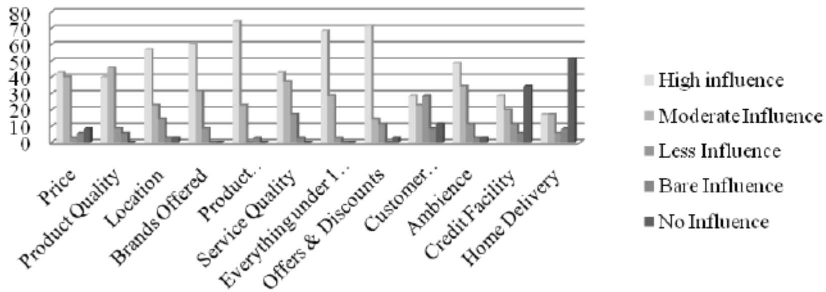


Figure 4: Factors Influencing Selection of Organized Retail

Interpretation: Factors like Product assortments/variety, Offers and Discounts and availability of all products under 1 roof attract customers to Organized Retail.

V. Factors Influencing Selection of Unorganized Retail (Ref. Fig. 5)

66% customers select unorganized retail for convenience of location and Home Delivery facility. Credit Facility attracts only 49% of customers.

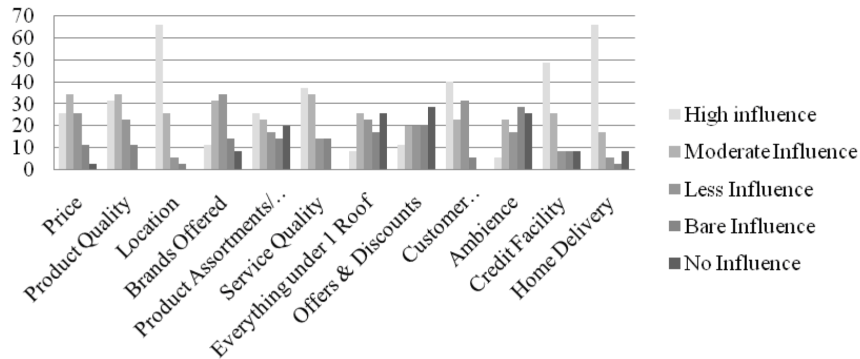


Figure 5: Factors Influencing Selection of Unorganized Retail

Interpretation: Store Location and Home Delivery enjoy equal position for selection of Unorganized Retail Outlet.

VI. FDI – A Welcome Change in Retail (Ref. Fig. 6)

71% customers have given an overwhelming response to FDI and welcomed the change. 23% customers are not sure and 6% typically don't see FDI as a welcomed change.

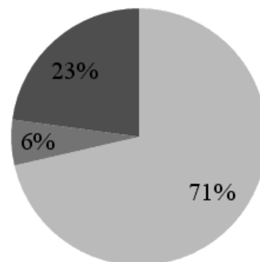


Figure 6: PDI – A Welcom Change

Interpretation: It is revealed that maximum customers are looking forward to welcome FDI in multi brand retail in India.

VII. Comparison of Customer Choice for Organized and Unorganized Retail (Ref. Fig. 7)

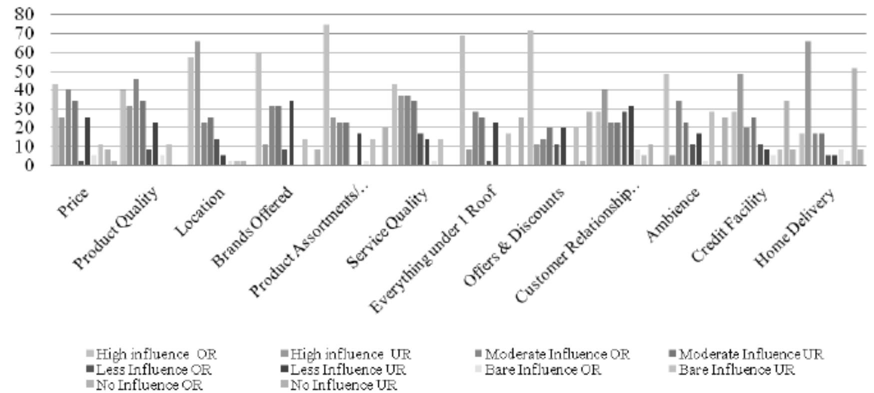


Figure 7: Organized vs Unorganized Retail

Key Findings and Suggestions

The key finding of the research is as follows:

(i) On comparison, Product assortments, Offers and Discounts and availability of items under one roof are the USPs of Organized Retail.

(ii) There is no significant difference as far as location is concerned for selection of either of the formats.

(iii) Home delivery still plays a significant role while selecting unorganized retail over organized retail store.

(iv) The major factors that attract consumer to unorganized retailers are goodwill, bargaining, loose items, and convenient timings.

(v) Consumers have generally gained with emergence of organized outlets through the availability of better quality products, lower prices, one-stop shopping, choice of additional brands and products, family shopping and fresh stocks.

(vi) With customers gaining awareness on FDI, the policy of allowing 51% FDI in Multi-brand retail will encourage Indian customers to access foreign brands. It shall benefit both the foreign retailer and the Indian partner – foreign players will get local market knowledge, while Indian companies can avail global best management practices, designs and technological knowhow.

(vii) FDI in retail may also help bring in technical know-how to set up efficient supply chains which could act as models of development.

Conclusion

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. The study advocates a balanced approach to retail and suggests that the government plays a major role in shaping its future course. There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. Further, Corporate India and leading Indian organized retail players have come out in strong support of the FDI. For serious global retail players waiting in the wings with India aspirations, this is clearly the opportune time to consider an India entry. While there is no debate on the timing or the opportunity, potential foreign retail entrants need to develop a deeper understanding of the market and its challenges and to draw up a robust entry strategy. By opening this sector, the government has shown its willingness to welcome the reform in retail sector. By allowing FDI in retail trade, India will significantly benefit by enhancing quality standards. It will integrate the modern Indian retail market with that of the global retail market. This change will boost the standards of living by opening up new arena of employment. Better pay package in retail industry along with respectful positions will encourage individuals to explore the field as the unorganized sector has failed to provide the same. However, FDI in multi-brand retailing needs to be dealt with great caution as it has direct

impact on a large chunk of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor. Thus, the entry of foreign capital into multi-brand retailing needs to be anchored in a way that it results in a win-win situation for both India and global players. To summarize, debate on opening up multi-brand retail is a welcome first step. There is sincere expectation that the government will open the sector to FDI, and act fast on this front, even if it means opening the sector in a gradual and phased manner.

References

Bajaj Chetan, Tuli Rajnish, Srivastava Nidhi, "Retail Management", Oxford University Press, New Delhi, 2006, pp. 85-190.

Assocham India, 'India's experience with FDI: Role of a Game Changer', Published in January 2012.

A.T. Kearney's Report on Indian Retail, 2008.

Bisaria Gaurav, 'Foreign Direct Investment in Retail in India', *International Journal of Engineering and Management Research*, Vol. 2, Issue-1, Jan 2012 ISSN No.: 2250-0758, pp. 31-36.

Sanyal Prithvi Raj, Singh Nidhi & Tripathi Sourabh, 'An Updates of Issues, Challenges and Opportunities in FDI in India', ICOQM-10, June 28-30, 2011.

http://business.mapsofindia.com/fipb/forms-foreign-capital-flowing.html, Forms of Foreign Capital Flowing into India.

http://profit.ndtv.com/news/economy/article-fdi-in-multi-brand-retail-india-inc-cheers-house-nod-314307

http://www.indiaretailbiz.com/blog (2009) Indian Retail Biz, Economic Survey recommends opening of retail to foreign investment (FDI).

Annexure: Questionnaire

FDI in Multi-Brand Retail – Imperative or Still an Option for India!

Name: ____

Age: 20-35 ☐ 35-45 ☐ 45 & above ☐

Occupation: Salaried ☐ Self Employed ☐ Professionals Others ☐

Gender: M ☐ **F** ☐

Q1. State your preference of Retail Markets:

Organized Retail ☐ Unorganized Retail ☐ Not Sure ☐

Q2. State your preference of Retail Markets for purchase of following item: (Please tick ✓)

S. No.	*Items*	*Organized Retail*	*Unorganized Retail*
1	Grocery (Non Perishable Items)		
2	Vegetables, Fruits, Dairy & Food Products (Perishable Items)		
3	Electronics & Appliances		
4	Apparels & Accessories		
5	Toys & Kids Section		
6	Medical & Health Products		

Q3. How often do you visit malls?

Daily ☐ Weekly ☐ Fortnightly ☐ Monthly ☐

Q4. What is the purpose of your visit to malls based on following parameters? (Please tick ✓)

S. No.	*Parameters*	*Always*	*Sometimes*	*Never*
1	Shopping			
2	Entertainment			
3	Window Shopping			
4	Eating out			

Q5. What is the impact of Organized retail on your spending?

Increase ☐ Decrease ☐ No change ☐

Q6. Which following attributes influence you most in selecting Organized / Unorganized retail outlet? (5 – High Influence, 4 – Moderate Influence, 3 – Less Influence, 2 – Bare Influence, 1 – No Influence)

S. No.	*Attributes*	*Organized Retail*	*Unorganized Retail*
1	Price		
2	Product Quality		
3	Location		
4	Brands Offered		
5	Product Assortments/ Variety		
6	Service Quality		
7	Everything under one roof		
8	Offers & Discounts		
9	Customer Relationship Approach		
10	Ambience		
11	Credit Facility		
12	Home Delivery		

Q7. Are you aware of FDI reform announced by Govt. of India?

Yes ☐ No ☐

Q8. Do you feel that FDI in Indian Multi Brand Retail is a welcome change?

Yes ☐ No ☐ Not Sure ☐

Evaluating the Need for FDI in Retail Based on the Retailers Performance

Aradhana Gandhi* **and Ravi Shankar****

E-mail: aradhana_gandhi@scmhrd.edu; ravi1@dms.iitd.ernet.in

ABSTRACT

The paper aims to do a benchmarking study of Indian retailers using Data envelopment Analysis (DEA). The efficiency of 18 retailers is ascertained using DEA models on the basis of the inputs that they use and the outputs that they produce. The study suggests possible potential improvements that can be made by the retailer to the inputs like cost of labor and capital employed to move towards the efficiency frontier. The study further evaluates the need for Foreign Direct Investment (FDI) in India, in light of the current level of efficiency of the Indian retailers. Implications of the study are discussed.

Keywords: Data Envelopment Analysis, Foreign Direct Investment Retailers, Efficiency, India

Introduction

India's retail growth is largely driven by increasing disposable incomes, favorable demographics, changing lifestyles, growth of middle class segment and a high potential for penetration into the urban and rural markets.

* Symbiosis Centre for Management and Human Resource Development, Symbiosis International University, Symbiosis Infotech Campus, MIDC, Hinjewadi, Pune.

** Department of Management Studies, Vishwakarma Building, Shaheed Jeet Singh Marg, Indian Institute of Technology, Delhi.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 15–28

Having realized the vast potential of the relatively untapped domestic market, large industrial conglomerates like Mahindra and Mahindra, Reliance, Tata's, Essar and Aditya Birla entered the retail market between the periods 2005 to 2010. The success of these conglomerates brought in global retailers like Metro AG, Max Retail, Shoprite, Hypercity, Carrefour, TESCO, Zara, Bharti-Wal-Mart, SPAR, Mother care and others. A study of the productivity of Indian retailers would therefore, be of great interest and would provide an outlook to understand their performance and how they would be able to survive in the coming days. The study will try to identify the retail firms, which are the most efficient, or the best practice firms and the firms, which are not. Benchmarking with the best firms in the sector will provide information, which can help the inefficient firms to move towards efficiency by making the required changes in either the scale of the firm, current level of technological investments, managerial skills or any other factor, which can affect the productivity of the firm. Finally, the need for FDI will be studied in light of the current state of efficiency of a sample of Indian retailers.

The Indian Retailing Industry

The Indian retail market is estimated to exceed US$ 750 billion by 2015, according to the India Retail report 2013 (IRIS Research). According to A T Kearneys's Global Retail Development Index (GRDI) 2012, India is the 5th most favorable destination for International retailers. The retail sales account for 33 percent of India s GDP and supports livelihood of over 38 million people in India, which accounts for 8.5 percent of the total employed population in the country (Retailing in India, Euro monitor). Of the total Indian retail market, 8 percent constitutes the organized retail segment, which is estimated to grow at a rate of almost 30 percent by 2015. Clothing and Apparel make up almost a third of the organized retail segment, followed by Food and Grocery and Consumer Electronics.

As we embark into new era which has witnessed global slowdown and intense competition to survive, it is quite appropriate to understand the role FDI will play in enabling and supporting firms to sustain superior performance. The Government of India has taken various steps to provide the required impetus to the industry. Until 2011, the Indian central government denied FDI in multi-brand retail, forbidding foreign groups

from any ownership in supermarkets, convenience stores or other retail outlets. Even single-brand retail was limited to 51 percent ownership and a bureaucratic process. In the late 2012, the government of India passed a FDI policy, which allows foreign retailers to own up to 51 percent in multi-brand retail and 100 percent in single brand retail. It is expected that these stores will now have full access to over 200 million urban consumers in India, approximately 47 percent of which, are below the age of 30 with high levels of consumption.

Literature Review

DEA has been widely used as an efficiency measurement tool in a variety of fields like evaluating the efficiency of banks, manufacturing companies, educational institutions, etc. Many studies have applied DEA and related methodologies to Retail outlets in the USA, UK, Spain and Portuguese. Since the DEA model is well established and extensively used in the literature on general economics, its discussion is limited to the use of the model in the retail sector. Few studies are described, which have used DEA for evaluating the efficiency of retailers.

Retail productivity has been analyzed in the USA by Keh and Chu (2003), Thomas et al. (1998), Mostafa (2009), Mostafa (2010) and Malhotra et al. (2010). Mostafa (2010) used DEA to analyze the relative efficiency of 45 retailers in the USA. The results indicate that the performance of several retailers is sub-optimal, suggesting the potential for significant improvements. Thomas et al. (1998) used DEA to assess the efficiency of 552 individual stores for a multi-store, multi-market retailer.

Yu and Ramanathan (2008) and Athanassopoulos (1995) conducted retail productivity studies in the UK. Yu and Ramanathan (2008) used DEA to analyze the efficiency of 41 retail companies in UK in the period 2000 to 2005. Anthanassopoulos (1995) used DEA to aid in decision making in multi-level retail organization.

There are a couple of studies conducted in Spain (Sellers-Rubio and Mas-Ruiz, 2006; Sellers-Rubio and Mas-Ruiz, 2007; Moreno and Sanz-Triguero, 2011; Moreno, 2008) and some studies are conducted in Portuguese (Barros, 2006; Barros and Alves, 2003; Vaz and Guimaraes, 2008). Barros (2006) used DEA to analyze the efficiency of sample of 22

hypermarket and supermarket retail companies in the Portuguese market. The literature review reveals that, to our knowledge, there are as yet no published studies specifically analyzing Indian retailer efficiency.

Research Objective and Methodology

The study aims to identify the efficiency level of retailers in India. Issues to be addressed in measuring individual retailers efficiency include ascertaining multiple inputs and outputs related to the retail industry, taking into consideration the many factors influencing productivity, that are likely to vary from store to store, developing a single index of store efficiency and establishing the performance capability of each retailer. For calculating the efficiencies the input and output parameters were selected based on literature review. The input parameters selected are cost of labor and capital employed and the output parameters are profit and sales. Two models of DEA were selected. The first one is input oriented constant returns to scale refereed as CCR model. The second is input oriented variable returns to scale refereed as BCC model. The reason for selecting input oriented models is the assumption that a retailer has the capacity to change the inputs, but has very limited scope to change the outputs, as the outputs are depended on market related forces, which are hardly under the complete control of the retailer. Based on the scores of CCR and BCC efficiency, scale efficiency is calculated, which is a ratio of CCR and BCC scores. The conceptual framework of the study is proposed in Figure 1.

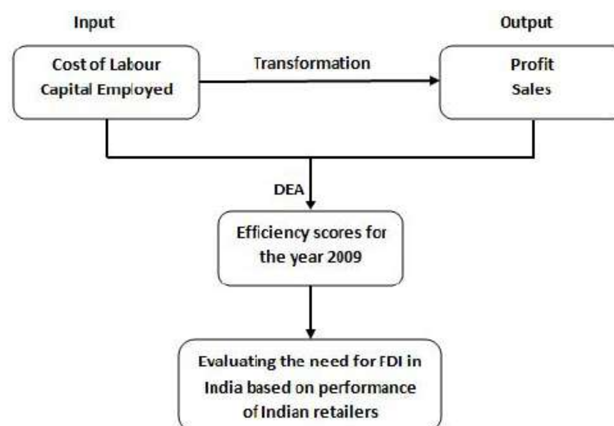


Figure 1: Conceptual Framework of the Research

Based on the efficiency scores of retailers in India, further study is conducted to ascertain, whether Indian retailers would benefit with FDI in retail.

Data Envelopment Analysis

DEA was suggested by Charnes, A. et al. (1978). It was built on the idea of Farrell (1957). DEA is a nonparametric method in operations research and economics for the estimation of production frontier. It is used to measure productive efficiency of decision making units, where the presence of multiple inputs and outputs makes comparisons difficult. The advantages of DEA are its ability to identify sources and amounts of inefficiency in each input and each output for each Decision Making Unit (DMU). It also identifies the most efficient set of DMUs and the inefficient ones. DEA optimizes at each observation in order to construct the production frontier. This frontier consists of a discrete curve formed by efficient DMUs, those that maximize outputs. The inefficient DMUs are below the production frontier, since they do not maximize the outputs at the production level.

There are different models of DEA. The CCR model was initially proposed by Charnes, Cooper and Rhodes in 1978 and therefore the abbreviation CCR (Charnes, A. et al. 1978. Later Banker, R.D., et al. (1984), suggested a model for distinguishing between technical efficiency and scale efficiency in DEA. The BCC model was proposed by Banker, Charnes and Cooper and therefore the abbreviation BCC.

The DEA methodology measures the efficiency of each DMU as the ratio of weighted outputs to the weighted inputs. The weights are derived from the data and therefore the Linear

programming model tries to maximize the efficiency of each decision making unit (DMU). Charnes et al. (1978), calculate the efficiency measure as one that assigns the most favorable weights to each unit. Mathematically, this can be written as (Eqs. (1)):

$$\text{Efficiency ratio} = \frac{\text{Weighted sum of output}}{\text{Weighted sum of input}} \qquad \dots (1)$$

The research paper assumes that the reader has some basic understanding of the technique and the technique itself is well established and therefore the paper does not provide a detailed review of the same.

Data

The model in this paper uses data for the year 2009. The data has been taken from CMIE database. To be included in the data set used in this study, companies had to meet the condition that their financial information is available. This left 18 retailers in the final data set to be analyzed. Secondly, DEA requires that the inputs and outputs should be non negative figures. A linear scale transformation is performed on profit in order to eliminate a negative value that is the maximum loss value is added to all the data points (Dasgupta, S. et al., 1999). Table 1 reports descriptive statistics of the variables used in the study.

Table 1: Descriptive Statistics of the Variables Used in the Study Based on CMIE Database (Data in 2009)

Variables	*Minimum*	*Maximum*	*Mean*	*Std. deviation*
Outputs				
Sales	3.84	6661.42	1056.36	1662.84
Profit	1	790.40	595.27	169.09
Inputs				
Cost of Labor	1.17	276.06	80.79	91.12
Capital Employed	3.68	5099.93	872.92	1411.22

Note: Values in Rs. 10 billion.

Inputs and Outputs

DEA model requires the identification of inputs and outputs. Based on Literature survey and availability of published data, the input and the output variables have been selected. The output was measured in terms of sales and profit. The inputs were measured in terms of cost of labor and capital employed. The DEA technique ascertains how efficiently cost of labor and capital employed were used to generate higher sales and profits.

Based on the review of literature, the authors who have used similar input and output criteria are mentioned in Table 2.

Table 2: Input and Output Parameters with Supporting Literature

Input/Output Parameters	*Literature*
Output Parameters	
Sales	Yu and Ramanathan (2008), Perrigot and Barros (2008), Barros and Alves (2003), Moreno and Sanz-Triguero (2011), Sellers-Rubio and Mas-Ruiz (2006), Joo et al. (2011), Banker et al. (2009), Moreno (2008), Barros (2006), Mostafa (2008), Joo et al. (2009), Mostafa (2010), Mateo et al. (2006), Vaz and Guimaraes (2008), Moreno (2006), Moreno (2010), Sellers-Rubio and Mas-Ruiz (2006), Sellers-Rubio and Mas-Ruiz (2007), Barth (2007), Donthu and Yoo (1998), Thomas et al. (1998), Keh and Chu (2003), Athanassopoulos (1995)
Profit	Yu and Ramanathan (2008), Perrigot and Barros (2007), Barros and Alves (2003), Sellers-Rubio and Mas-Ruiz (2006), Dasgupta et al. (1999), Barros (2006), Malhotra et al. (2010), Moreno (2010), Sellers-Rubio and Mas-Ruiz (2006), Sellers-Rubio and Mas-Ruiz (2007), Thomas et al. (1998)
Input Parameters	
Labor	Yu and Ramanathan (2008), Perrigot and Barros (2007), Barros and Alves (2003), Moreno and Sanz-Triguero (2011), Sellers-Rubio and Mas-Ruiz (2006),Moreno (2008), Barros (2006), Mostafa (2008), Joo et al. (2009), Mostafa (2010), Mateo et al. (2006), Moreno (2006), Moreno (2010), Sellers-Rubio and Mas-Ruiz (2006), Sellers-Rubio and Mas-Ruiz (2007), Barth (2007), Thomas et al. (1998), Keh and Chu (2003)
Capital employed	Perrigot and Barros (2007), Sellers-Rubio and Mas-Ruiz (2006), Sellers-Rubio and Mas-Ruiz (2009), Sellers-Rubio and Mas-Ruiz (2007), Keh and Chu (2003)

The total number of input and output variables was kept to the minimum as per the DEA convention. The general rule of thumb is that the minimum number of DMU's should be greater than three times the

number of inputs plus outputs. This rule has been adhered in this paper. Number of inputs plus outputs are 4 multiplied by three is twelve. The number of DMU's used is more than twelve and therefore adhere to the rule.

DEA Results

The DEA results were calculated by using the software, which came with the book 'Data Envelopment Analysis', by Cooper et al. (2007). The relative efficiency scores of 18 Indian retailers in the year 2009 are presented in Table 3.

Table 3: The Efficiency Scores of the Indian Retailers (Data in 2009)

Name of Retail Company	*CCR*	*BCC*	*Scale Efficiency*
Pantaloon Retail India Ltd.	0.77	1	0.77
Shoppers Stop Ltd.	0.71	0.84	0.85
Trent Ltd.	0.40	0.45	0.88
Infiniti Retail Ltd.	1	1	1
Titan Industries Ltd.	1	1	1
Spencer's Retail Ltd.	1	1	1
Reliance Retail Ltd.	0.13	0.13	1
Aditya Birla Retail Ltd	0.09	0.09	1
Madura Fashion & Lifestyle Ltd.	0.06	0.06	1
Avenues Supermarts Pvt. Ltd.	1	1	1
Store One Retail India Ltd.	0.40	0.40	1
Bata India Ltd.	0.57	0.85	0.67
Archies Ltd.	0.37	0.42	0.88
Baid Global Ventures Ltd.	1	1	1
Style Spa Furniture's Ltd.	1	1	1
Provogue (India) Ltd.	0.47	0.51	0.92
Koutons Retail India Ltd.	1	1	1
Globus Stores Pvt. Ltd.	0.54	0.54	1

It can be observed that under the CCR model (CRS), the most efficient Indian retail firms which are on the efficient frontier are Infiniti Retail Ltd. (1.00); Spencer's Retail Ltd. (1.00); Avenues Supermarts Pvt. Ltd. (1.00); Baid Global Ventures Ltd. (1.00); Koutons Retail India Ltd. (1.00), Titan Industries Ltd. (1.00) and Style Spa Furniture's Ltd. (1.00). It implies that these firms have produced the maximum outputs (Sales and Profit) for the given level of inputs (Cost of Labor and Capital Employed). The average efficiency score under CCR is 63.9 percent with a standard deviation of 34, which implies that on an average the Indian retail firms could use 36 percent less inputs to produce the same level of output.

With regard to BCC model (VRS), the most efficient Indian retail firms which are on the efficient frontier are Pantaloon Retail India Ltd. (1.00); Infiniti Retail Ltd. (1.00); Titan Industries Ltd. (1.00); Spencer's Retail Ltd. (1.00); Avenues Supermarts Pvt. Ltd. (1.00); Baid Global Ventures Ltd. (1.00); Style Spa Furniture's Ltd. (1.00) and Koutons Retail India Ltd. (1.00). The average efficiency score under BCC is 68 percent with a standard deviation of 35. Retail firms like Pantaloon Retail India Ltd. is showing less than 100 percent efficiency on CCR as compared to 100 percent efficiency on BCC. This implies that this firm does not operate at their most productive scale of operations.

Scale efficiency is the ratio of CCR and BCC efficiency. Indian retail firms which have higher scale efficiency near to 1.00 are Infiniti Retail Ltd. (1.00); Titan Industries Ltd. (1.00); Spencer's Retail Ltd. (1.00); Avenues Supermarts Pvt. Ltd. (1.00); Baid Global Ventures Ltd. (1.00); Koutons Retail India Ltd. (1.00); Reliance Retail Ltd. (1.00); Aditya Birla Retail Ltd. (1.00); Provogue (India) Ltd. (1.00); Madhura Fashions & Lifestyle Ltd. (1.00); Store One retail India Ltd. (1.00) and Style Spa Furniture's Ltd. (1.00)

Evaluating the Need for FDI in Retail Based on the Performance of Indian Retailers

The Indian organized retail sector is in its nascent stage and therefore the industry faces a lot of problems. Poor infrastructure like roads, communications, and power makes logistics and transportation in India extremely difficult. Further, internal operations of retailers, such as

warehouse processes and distribution, are usually fairly inefficient. Retailers are keen to outsource this activity but unfortunately, there is an absence of mature third party logistics service performing at high service level at competitive prices.

The percentage of shrinkage in Indian retail sales is the highest in the world, especially in the fresh fruit and vegetables segment due to lack of refrigerated containers to transport the goods and refrigerated warehouses to store the perishable items. Supply chain inefficiency breeds wastage of food produce. CRISIL Research estimates that about 27 percent of India's annual production of fruits and vegetables, worth Rs 700 billion, is wasted due to poor cold storage and transport facilities. About 50 percent of this wastage can be prevented if retailers develop an efficient supply chain. Investing in the back-end supply chain to reduce the wastage will be necessary to ensure reasonable margins in the Food and Grocery segment, which is highly competitive and price sensitive. An efficient supply chain will enable direct sourcing of fruits and vegetables, which will boost farmer realizations by 10-15 percent and still bring down retail prices by 15-20 percent (CRISIL report). Existing supply chain especially food and grocery has too many intermediaries, which increases the cost to the consumer and results in a lot of wastage and shrinkage on its way to the retail store. Going forward, technology is likely to be a key differentiator to bring about efficiencies, save on costs and offer better services to the consumers. Though most of the retailers have deployed some or other technology, most of it does not integrate to provide a seamless, completely integrated environment. All the elements within the retail industry right from data warehouses, logistics, supply chain, store management, point of sale, etc., are likely to get impacted positively with the usage of technology.

Understanding the various problems that the retail industry faces, it is important to ascertain, whether FDI in Retail would be able to play a key role in enhancing the efficiency and performance of the industry. FDI in general, has an important beneficial effect on the economy as it brings more resources, facilitates technological and managerial knowledge transfer. It also helps in developing international import and export, creates humongous job opportunities and provides economic growth (Kinda, 2010). A study conducted by Fu et al. (2012) in the UK retail market suggest, that on an average, foreign owned retail firms achieve higher

management capability scores and are more productive than the local firms. This indicates that FDI plays an important role in developing the sector and making it more competitive to the advantage of the consumers.

Our study therefore tries to ascertain, whether the Indian Retail sector would benefit with FDI or not? To accomplish this objective, the efficiency level of Indian retailers is ascertained. The results of the DEA show that, 7 firms out of 18 firms are on the efficient frontier as per CCR model and 8 firms out of 18 are efficient as per BCC model. The minimum efficiency level of some of the retail firms is as low as 6 percent, which indicates, that there is humongous opportunity for improvement. The overall results indicate that the Indian retailers are relatively less efficient and that most of the firms have still not crossed their gestation period of reaping benefits out of the investments made. The mean efficiency levels of the Indian retailers for the year 2009 based on CCR model and BCC model is 63.9 percent and 68 percent respectively. These figures are quite low as compared to the studies undertaken in the Europe or the US.

With the current study, it is evident that Indian retailers would require funds, technology, efficient supply chain and managerial inputs, which could come through the foreign capital route. In 2011-12, organized retail accounted for 7 percent of the Indian retail industry. The food and grocery segment which accounts for two-third of the Indian retail market has organized retail sales of only 2 percent, the lowest among the retail verticals. This highly price sensitive segment will benefit the most from the scale, technology and investments in the back-end that could accompany foreign capital.

Conclusion and Discussion of Managerial Implications

This study is very important for the Indian retailers to compare their individual productivity with the most efficient firms in the industry. Benchmarking efficiency is a good way managers can use to compare their performance with the best in the industry and globally, and accordingly making the required changes. It is therefore hoped that managers analyze their organizational practices with their peer groups in India and abroad and accordingly try to improve their future efficiencies. FDI in retail will enable the retailers to infuse money in the business, which is required to make the appropriate changes in the way the business is run to move

towards efficiency. FDI would not only bring money in the business, but also know - how, technology and best supply chain practices. FDI in retail is a welcome reform the part of the government and hopefully the supply chains will become more efficient, farmers will earn more money for their produce, agricultural wastage will reduce considerably and new technology infusion will make the processes more efficient. Finally the consumers should benefit in the form of reduced cost.

References

Anthanassopoulos, A.D. (1995), "Performance improvement decision aid systems (PIDAS) in retailing organizations using data envelopment analysis", *The Journal of Productivity Analysis*, No. 6, pp. 153-170.

Banker, R.D., Charnes, A., and Cooper, W.W. (1984), "Some models for estimating technical and scale efficiencies in data envelopment analysis", *Management Science*, Vol. 30, pp. 1078-92

Banker, R.D., Lee, S.Y., Potter, G. and Srinivasan, D. (2009), "The impact of supervisory monitoring on high end retail sales productivity", *Annals of Operations Research*, 173: 25-37.

Barros, C.P. (2006), "Efficiency measurement among hypermarkets and supermarkets and the identification of the efficiency drivers: A case study", *International Journal of Retail and Distribution Management*, Vol. 34, No. 2, pp. 135-154.

Barros, C.P. and Alves, C. (2003), "Hypermarket retail store efficiency in Portugal", *International Journal of Retail & Distribution Management*, Vol. 31, No. 11, pp. 549-560.

Barth, J.E. (2007), "Customer engagement and the operational efficiency of wine retail stores", *International Journal of wine Business Research*, Vol. 19, No. 3, pp. 207-215.

Charnes, A., Cooper, W.W, and Rhodes, E. (1978), "Measuring the efficiency of decision making units", *European Journal of Operational Research*, Vol. 2, pp. 429-44.

Cooper, W.W., Seiford, L.M. and Tone, K. (2007), "Data envelopment analysis: A comprehensive text with models, applications, references and DEA – Solver Software", 2nd edition, Springer.

Dasgupta, S., Sarkis, J. and Talluri, S. (1999), "Influence of information technology investment on firm productivity: A cross-sectional study", *Logistics Information Management*, Vol. 12 No. 1/2, pp. 120-129.

Donthu, N. and Yoo, B. (1998), "Retail productivity assessment using data envelopment analysis", *Journal of Retailing*, Vol. 74, No. 1, pp. 89-105.

Farrell, M.J. (1957), "The Measurement of Productivity Efficiency", *Journal of the Royal Statistical Society A*, Vol. 120, pp. 253-81.

Joo, S.J., Nixon, D. and Stoeberl, P.A. (2011), "Benchmarking with data envelopment analysis: A return on asset perspective", *Benchmarking: An International Journal*, Vol. 18, No. 4, pp. 529-542.

Joo, S.J., Stoeberl, P.A and Fitzer, K. (2009), "Measuring and benchmarking the performance of coffee stores for retail operations", *Benchmarking: An International Journal*, Vol. 16 No. 6, pp. 741-753.

Kinda, T. (2010), "Investment climate and FDI in developing countries: Firm level evidence", *World development*, Vol. 38, No. 4, pp. 498-513.

Keh, H.T. and Chu, S. (2003), "Retail productivity and scale economics at the firm level: a DEA approach", *Omega*, Vol. 31, pp.75-82.

Malhotra, R., Malhotra, D.K. and Lafond, C.A. (2010), "Benchmarking large U.S. retailers using Data envelopment analysis model", *Applications of Management Sciences*, Vol. 14, pp. 217-235.

Mateo, F.D., Coelli, T. and O Donnell, C. (2006), "Optimal paths and costs of adjustment in dynamic DEA models: With application to children department stores", *Annals of Operations Research*, 145: 211-227.

Moreno, J.D.D. (2008), "Efficiency and regulation in Spanish hypermarket retail trade: A cross section approach", *International Journal of Retail and Distribution Management*, Vol. 36, No. 1, pp. 71-88.

Moreno, J.D.J and Sanz-Triguero, M. (2011), "Estimating technical efficiency and bootstrapping Malmquist indices", *International Journal of Retail and Distribution Management*, Vol. 39, No. 4, pp. 272-288.

Moreno, J.D.J. (2006), "Regional regulation analysis of performance in Spanish retailing", *International Journal of Retail and Distribution Management*, Vol. 34 No. 10, pp. 773 - 793.

Moreno, J.D.J. (2010), "Productivity growth of European retailers: A benchmarking approach", *Journal of Economic Studies*, Vol. 37, No. 3, pp. 288-313.

Mostafa, M.M. (2009), "Benchmarking the US specialty retailers and food consumer stores using data envelopment analysis", *International Journal of Retail and Distribution Management*, Vol. 37, No. 8, pp. 661-679.

Mostafa, M.M. (2010), "Examining the efficiency-profitability link in the US specialty retailers and food consumer stores", *International Journal of Productivity and Performance Management*, Vol. 59, No. 3, pp. 255-273.

Perrigot, R. and Barros, C.P. (2008), "Technical efficiency of French retailers", *Journal of Retailing and Consumer Services*, 15, pp. 296-305.

Sellers-Rubio, R. and Mas-Ruiz, F. (2006), "Economic efficiency in supermarkets: Evidences in Spain", *International Journal of Retail and Distribution Management*, Vol. 34, No. 2, pp. 155-171.

Sellers-Rubio, R. and Mas-Ruiz, F. (2007), "An empirical analysis of productivity growth in retail services: Evidence from Spain", *International Journal of Service Industry management*, Vol. 18, No. 1. pp. 52-69.

Sellers-Rubio, R. and Mas-Ruiz, F. (2009), "Technical efficiency in the retail food industry", *European Journal of Marketing*, Vol. 43, No. 5/6, pp. 652-669.

Thomas, R.R., Barr, R.S., Cron, W.L. and Slocum, J.W. Jr (1998), "A process for evaluating retail store efficiency: A restricted DEA approach", *International Journal of Research in Marketing*, Vol. 15, No. 5, pp. 487-503.

Vaz, C.B., Camanho, A.S. and Guimaraes, R.C. (2010), "The assessment of retailing efficiency using network data envelopment analysis", *Annals of Operations Research*, 173: 5-24.

Yu, W. and Ramanathan, R. (2008), "An assessment of operational efficiencies in the UK retail sector", *International Journal of Retail and Distribution Management*, Vol. 36. No. 11, pp. 861-882.

A.T. Kearney's 2012 report http://www.atkearney.com/consumer-products-retail/global-retail-development-index/past-report/-/asset_publisher/r888rybcQxoK/content/global-retail-development-index/10192, (accessed on 3 October 2013).

CRISIL database: www.crisilresearch.com

Euromonitor report: www.euromonitor.com/india

IRIS Research: http://www.irisresearch.com/

FDI – Making it Count for India Next Decade

Anuradha Ganesh[*]

E-mail: ashram.ganu@gmail.com

What is FDI

Foreign Direct Investment refers to investments made by foreign nationals in a country with the intention of gaining an interest in the said country. FDI is defined by International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a 'lasting interest' in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. In the Indian context, 'FDI' means investment by a non resident in a company incorporated in India. Foreign Direct Investment in India is regulated under the Foreign Exchange Management Act (FEMA). "Foreign Direct Investment" is not defined under FEMA or under the Government policy. However it appears only as a head note of Schedule 1 to Notification No. FEMA 20/RB dt. 03.05.2000 (cited as Notification No. 20). In common parlance any investment which is not a portfolio investment is described as direct investment.

Therefore, any investment made in accordance with Schedule 1 can be treated as a foreign direct investment or FDI. There are two types of FDI: inward and outward. Investments into a country are inward FDI whereas investments made from the country and into other countries are

* Mulund College of Commerce, Mulund, Maharashtra, Mumbai.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 29–40

outward FDI. The resulting net investment is nothing but *net* FDI *inflow* (positive or negative).

FDI Across the Globe

There is a popular belief in developing economies that developed nations are only investors and therefore, FDI is received by developing nations. This is far from the reality. The United States happens to be the world's largest recipient of FDI. The primary reason for the same is that the U.S. has a fundamentally open economy and has very minimal barriers to foreign direct investment. U.S. FDI totaled $194 billion in 2010. 84% of FDI in the U.S. in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. Research indicates that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.

President Barack Obama has said, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people."

FDI in China

Also known as RFDI (renminbi Foreign Direct Investment), FDI in China has increased considerably over the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping theUnited States which had $57.4 billion of FDI during the same period."

Foreign Direct Investment in India – The Story So Far

The evolution of Indian FDI can broadly be divided into three phases classified on the basis of the initiatives taken to induce foreign investments into the Indian economy:

The first phase, between 1969 and 1991, was marked by the coming into force of the Monopolies and Restrictive Trade Practices Commission (MRTP) in 1969, which imposed restrictions on the size of operations, pricing of products and services of foreign companies. The Foreign Exchange Regulation Act (FERA), enacted in 1973, limited the extent of foreign equity to 40% in the sectors where FDI was permitted, although this limit could be raised to 74% under certain circumstances.

The second phase, between 1991 and 2000, witnessed the liberalisation of the FDI policy, as part of the Government's economic reforms program. In 1991, as per the 'Statement on Industrial Policy', FDI was allowed under the automatic route, up to 51%,in 35 high priority industries. Foreign technical collaboration was also placed under the automatic route, subject to specified limits. In 1996, the automatic approval route for FDI was expanded, from 35 to 111 industries, under four distinct categories (Part A – up to 50%, Part B – up to 51%, Part C – up to 74%, and Part D – up to 100%). A Foreign Investment Promotion Board (FIPB) was constituted to consider cases under the government route.

The third phase, beginning 2000 and till date, has reflected the increasing globalisation of the Indian economy.In the year 2000, a paradigm shift occurred, wherein, except for a negative list, all the remaining activities were placed under the automatic route. Caps were gradually raised in a number of sectors/activities. Some of the initiatives that were taken during this period were that the insurance and defence sectors were opened up subject to a cap of 26%. The cap for telecom services was increased from 49% to 74%, FDI was allowed up to 51% in single brand retail. The year 2010 saw the continuation of the rationalisation process and all existing regulations on FDI were consolidated into a single document for ease of reference. There has been further relaxations and liberalisation more recently, in September 2012, in retail and other sectors.

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. More recently, in September 2012, the GOI has allowed

FDI in aviation up to 49%, in the broadcast sector upto 74%, in multi-brand retail up to 51%, and in single brand retail up to 100%. The choice of allowing FDI in multi-brand retail up to 51% has been left to each state, given the huge political controversy the decision has witnessed. In the supply chain sector, the government of India had already approved 100% FDI for developing cold chain.

The question is not whether FDI is required but how do we attract the right amounts to the right sectors – an assessment of India's capital needs in key sectors.

India's $ 2 trillion economy has been growing at about 7% per annum over the last 3 years, although it has slowed down over the last year on the back of continued global uncertainty. However, focused efforts to attract higher levels of investment are required if India wants to achieve the interlinked goals of consistently over 8% p.a. GDP growth, faster manufacturing growth, greater employment and better infrastructure. It will require multiple interventions from the government and support agencies to create an attractive investment climate and raise investment levels so as to meet both the investment goals as well as the GDP growth targets.

In this context, let us examine a few key sectors, viz., infrastructure (including Power and Roads), Education and Health Care (these are essentially less sensitive in nature but are yet ones that need to grow and develop significantly to sustain economic growth and assure a decent standard of living for India's ever increasing population) and the investments that will be needed over the next few years to sustain a high rate of economic growth.

Infrastructure

Sector Facts

India has

- The fifth largest electricity generation capacity in the world
- 454 airports and airstrips
- The fourth largest rail network in the world

The Index of Eight core industries—crude oil, petroleum refinery products, coal, electricity, cement, steel, fertilizers and natural gas—having a combined weight of 37.90 percent in the Index of Industrial Production (IIP) stood at 139.5 in September 2012, according to data released by the Union Ministry of Commerce and Industry. During April-September 2012-13, the cumulative growth rate of the Core industries was 3.2 percent. The infrastructure sector accounts for 26.7 percent of India's industrial output.

The Planning Commission has projected that investment in infrastructure would almost double at US$ 1,025 billion in the Twelfth Five Year Plan (2012-17), compared to US$ 514 billion in the Eleventh Plan. Of the US$ 1,025 billion, 50 percent is expected to come from private sector, whose investment has been 36 percent in the Eleventh Plan.

According to investment banking company Goldman Sachs, India's infrastructure sector will require US$ 1.7 trillion investment in the next 10-years. Further, India needs to spend US$ 1.2 trillion by 2030 to meet the projected demand of its cities, according to a McKinsey Global Institute Report.

Power

Sector Facts

- FDI flows into power during April-August 2012 stood at US$ 315 million, according to the Department of Industrial Policy and Promotion (DIPP)
- The sector witnessed FDI inflows of US$ 1,652 million during April-March 2011-12, according to DIPP

The power sector, ranked sixth among the leading sectors of the Indian economy, has attracted US$ 4.6 billion in Foreign Direct Investment (FDI) since 2000, according to the Ministry of Commerce and Industry's Department of Industrial Policy & Promotion (DIPP). FDI in petroleum and natural gas totalled US$ 2.7 billion for the period, getting the ninth rank in foreign investment.

Effective and investment friendly policy roadmaps designed by the Government of India are increasing the liberalization of the nation's

economy, especially in the energy sector. Initiatives include ambitious five-year plans for increasing installed electricity infrastructure, the New Exploration and Licensing Policy for increasing the production of oil and gas, and the nuclear sector's recent embrace of international companies to provide equipment and related services.

In recent years availability of power in India has both increased and improved but demand has consistently outstripped supply and substantial energy and peak shortages prevailed in 2009-10. This reinforces the fact that investments required in this sector need to be both huge as well as timely, so as to narrow down the gap between the demand and supply position.

Roads

Sector Facts

- The length of various categories of roads is: National Highways – 70,934 km, State Highways – 1,54,522 km, Major District Roads & Other District Roads – 25,77,396 km, Rural Roads – 14,33,577 km
- National Highways comprise only 1.7 percent of total road network of the country, but carry about 40 percent of the road traffic.
- Foreign direct investment (FDI) received in construction development (including roads and highways) sector from April 2000 to August 2012 stood at US$ 21,340 million, according to Department of Industrial Policy and Promotion (DIPP) statistics

India has about 4.2 million kilometres of road network, which is the second largest in the world. About 65 percent of freight and 85 percent passenger traffic is carried by the roads.

Further, the Government will undertake the up-gradation of around 3,700 km of national highways (NHs) under the National Highways Interconnectivity Improvement Project (NHIIP) at a cost of about US$ 4.26 billion. According to official ministry sources, this project, to be executed by the Ministry of Road Transport and Highways, would involve double laning of single-lane highways in eight states in the next

three years. Currently, about 30 percent of the total NH network is still single-laned, 53 percent double-laned and 17 percent four/six/eight-laned. NHAI has completed 99.2 percent of construction work on the Golden Quadrilateral (GQ). Out of total length of 5,846 km of GQ project, 4 laning of 5,799 km has been completed.

Recently, the Yamuna Expressway, India's longest elevated highway, had been opened to traffic, slashing travel time between Delhi and Agra by almost half. Developing and upgrading India's roads will play a key role in building connectivity, faster turnaround times, and improve efficiency in transportation and in the manufacturing and services sectors, as the economy marches ahead.

Education

Sector Facts

- FDI inflows in the education sector during stood at US$ 660.93 million during April 2000-September 2012, according to the Department of Industrial Policy and Promotion (DIPP).
- According to the 2011 census, the total literacy rate in India is 74.04 percent. The female literacy rate is 65.46 percent and male literacy rate is 82.14 percent
- The country has 40 central universities, 45 technical institutes, 13 management institutes, 4 information technology institute, 6 science and research institute, 3 planning and architecture institutes, and 4 training institutions, according to the Ministry of Human Resource Development (HRD) Annual Report 2011-12

The education sector in India is evolving, led by the emergence of new niche sectors like vocational training, finishing schools, child-skill enhancement and e-learning, among others. The Indian education system, considered as one of the largest in the world, is divided into two major parts viz core and non-core businesses. While, schools and higher education form the core group, the non-core business consists of pre-schools, vocational training and coaching classes.

The higher education sector is expected to register a CAGR of 12 percent from 2008 to reach a size of US$ 31.47 billion, according to report released by Deloitte Touche Tohmatsu India titled 'Indian Higher

Education Sector: Opportunities aplenty, growth unlimited!'

The education sector in India is also considered as one of the major areas for investments as the entire education system is going through a process of overhaul, according to a report 'Emerging Opportunities for Private and Foreign Participants in Higher Education' by PricewaterhouseCoopers (PwC). The private education sector is estimated to reach US$ 115 billion by 2018, according to consulting firm Technopak.

Health Care

Sector Facts

- FDI inflow in hospital and diagnostic centres was US$ 1.4 billion during April 2000 and September 2012, according to the latest Department of Industrial Policy & Promotion (DIPP) data
- FDI inflow in medical and surgical appliances stood at US$ 570.2 million during the same period, according to the latest DIPP data

The Indian healthcare sector is expected to reach US$ 100 billion by 2015, growing at around 20 percent a year, according to rating agency Fitch. Some of the major factors driving the growth in the sector include increasing population, growing lifestyle related health issues, cheaper costs for treatment, thrust in medical tourism, improving health insurance penetration, increasing disposable income, government initiatives and focus on Public Private Partnership (PPP) models.

Further, the Indian pharmaceutical market is also set to witness medium-term growth.

Meanwhile, the Government of India has decided to increase health expenditure to 2.5 percent of gross domestic product (GDP) by the end of the Twelfth Five Year Plan (2012-17), from the existing 1.4 percent. Prime Minister, Dr Manmohan Singh also emphasised the need for increased outlay to health sector during the Twelfth Five Year Plan.

FDI Experience of Other World Economies – A Case Study with Specific Reference to China

Let us now examine how other emerging economies, including China, have approached FDI and how does India compare vis-à-vis these nations.

Comparison on FDI Policy – Key Sectors

Key Sector	*India*	*China*	*Indonesia*	*Singapore*	*Phillipines*
Real estate	Not permitted for <100 acres	100% on lease	100% on lease	100%	100% on lease
Retail trade	Single brand 100% Multi-brand 51%	100%	100%	100%	100%
Banking	74%	20% (increase at later stage up to 62% possible)	100%	100%	60%

* Most countries require the setting up of a local entity (WOS or JV) for property rights.

Source: US Commercial Service website, EDB, MIDA, Country websites.

For FDI, India is More Liberal But China is More Positive

Although there are imbalances between India's FDI policy and that of China, on an overall basis, India allows FDI in more sectors as compared to China. Also, India allows higher levels of foreign direct investment in many sectors as compared to China but our neighbour has been more successful when it comes to attracting FDI. A striking feature of China's FDI regime is its focus on agriculture and basic raw materials.

A number measures to improve India's investment environment invariably make slow progress due to a lack of sufficient consensus for immediate reforms. Here's a snapshot of how India measures up versus China on certain parameters:

Sectors in which India Permits a Higher FDI Cap

Key Sector	*India*	*China*
Mining, Oil and gas	100%	75%
Telecom	74%	49%

Banking	74%	62%
Media (print)	26%	0%
Electricity	100%	85%
Health Care	100%	85%

It is somewhat easier to set up business in India

	India	*China*
Days taken to start a foreign business	46	99
Ease of establishment index (0-min; 100-max)	76	64

But accessing land is easier in China

	India	*China*
Time to lease private land (days)	90	59
Time to lease public land (days)	295	129

And disputes are resolved faster in China

Arbitrating commercial disputes:

	India	*China*
Judicial assistance index (0-min; 100-max)	53	60

Way Forward on FDI – A Few Suggestions

Learning from the China story on FDI, the need of the hour is to create the right environment for attracting FDI in key sectors that require huge investments. We have certain inherent advantages like a detailed and well set legal system (an area where China lags behind although it is faster when it comes to disputes resolution) and we need to capitalise on the same by creating a consistent policy and a level playing field that will attract foreign investors.

We can consider suggestions that can be implemented immediately and ones that can take shape in the medium term:

- Immediate action – Sector specific initiatives to increase investment/ FDI especially in the non-strategic/less sensitive sectors
- Medium term plan – Make India a competitive destination for Investment through a stable and efficient regime of taxation, labour laws and adequate infrastructure.

Non Strategic Sectors where FDI Norms can be Relaxed

- Retail (the current announcements are discretionary at the state level)
- Real Estate and Construction
- Banking
- Tourism

Core Sectors which Need Investments to Sustain India's Economic Growth

- Power
- Infrastructure
- Education

Medium Term Recommendations

The need here is to make India an attractive and competitive destination for investments. This can be achieved only through investor friendly and stable policies. Some of the areas that need focus includes:

Corporate Tax Rates – uniform tax rates in the range of 25% to 30%.

Customs/Import Duties – up to 10% (0% within ASEAN and on reciprocal basis).

Labour Laws – not archaic and draconian but one that protects labour while achieving productivity and flexibility.

Independent Regulators – that ensures speed, transparency and a level playing field for all.

Legal System – speed of decisions and clarity in interpretation.

The creation of National Thrust Areas – where the Government removes all impediments and provides special incentives for a pre-determined time period in order to achieve a specified growth. These may include Tourism, Power and Energy, Education, Agro-processing, supply chain and Infrastructure.

Key factors driving Indian investment opportunities from an investor perspective include improved macro-economic fundamentals, increased ability to pay for infrastructure services, progress towards full cost recovery with use of efficient subsidies (the UID initiative can become a powerful tool here), gradually improving access to both foreign and domestic capital, gradually improving access to long term financing, fiscal incentives (such as tax rebates) and increasing clarity in policy and regulatory frameworks.

References

Various articles pertaining to FDI in the press, media and on Wikipedia.

Investment Strategy for India (finmin.nic.in).

Various articles published by the Overseas Indian facilitation centre (OIFC).

Getting China and India right (Anil K Gupta and Haiyan Wang).

Various Reports published by the Dept of Industrial Policy & Promotion.

McKinsey Global Institute Report.

'Indian Higher Education Sector: Opportunities aplenty, growth unlimited!' (Deloitte Touche).

Emerging Opportunities for Private and Foreign Participants in Higher Education' - PricewaterhouseCoopers (PwC).

Factors Influencing Buying Behavior of a Selected Apparel Retailer's Customers

G. Hari Shankar Prasad*

E–mail: ghsprasad@gmail.com

ABSTRACT

Retailing has been one of the oldest trade practices in India. Traditional retailing practices include weekly fairs, kirana shops etc. fair price shops of public distribution system is a large retail network managed and controlled by the government. The onset of the twenty first century saw tremendous growth in organized and modern retail outlets. There have been many different formats that have come up in Indian retail scenario. These formats include department stores, hypermarkets, supermarkets, discount stores, boutiques etc. specialty stores is another format that has become popular. There are specialty stores for electronic and white goods, jewelry, footwear, and apparel. Apparel retailers have taken lead in this retail revolution. Apparel and fashion products are way different from other products. These products are characterized by short life cycles and high product turnover. The consumer buying behavior of apparel and fashion products is also different. Psychological satisfaction rather than utility satisfaction is expected to play a major role in apparel purchase decisions. In this context, a study of factors affecting apparel buying decisions is undertaken at selected apparel retailer. There were similar studies done in other places and contexts. But similar study is not reported from

* Department of Fashion Management Studies, National Institute of Fashion Technology, Hyderabad.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 41–55

Hyderabad city so far. The current study is based on a primary data collection from customers of selected apparel retailer in Hyderabad. The data collected is analyzed using SPSS software. Statistical tool used is factor analysis. The findings of the study are interesting and have practical implications for managers in apparel retail industry.

Keywords: Retail, Apparel, Customers, Buying Behavior, Fashion, Hyderabad

Introduction

Organized retail has been growing in India since the beginning of the new millennium. This growth in organized retail is facilitated by growth in the Indian economy spurred by the government of India policy of liberalization, privatization and globalization of Indian economy since early 1990s and subsequent rise in income levels and surplus money among Indian public. As a result Indians, especially middle and upper middle class are psychologically and economically ready to pamper the growth in organized retail. This growth in Indian organized retail is led by chain stores like shoppers stop and lifestyle that are predominantly fashion and apparel retailers. Later future group has really speeded up the growth in terms of size and number of formats. Many Indian corporate companies have jumped into the bandwagon. Fashion and apparel product categories are way different than other product categories. The way customers contemplate the decision to buy or not to buy is also different. Psychological satisfaction of buying a product in vogue is more important than utility factors. In this context a study conducted at a selected apparel store in Hyderabad to examine the factors affecting the consumer behavior. The lickert scale factors from an earlier study by Isita and Pradip (1996) are adopted in this study.

Literature Review

Isita and Pradip (1996) did a study on factors influencing purchase of apparels from organized retail outlets. The frequent change in lifestyles with changing fashion preference of consumers is fed by the newer retail offerings coming from the organized retailers, where apparel gets utmost importance. Keeping these changing facets in view, this study makes an

attempt to identify the factors of the consumers' buying behavior that is influenced by retail apparel segment, and to assess the importance of each of them to consumers in selecting apparel from organized retail outlets. There are many studies done at international level on behavioral aspect of consumers in the context of retail marketing. The various factors influencing people's shopping behavior have been observed by Berry (1996). The author did a study on Retail failure. Yet, despite hyper competition in many markets, some retailers are performing well. What they have in common is compelling value for customers created through a bundle of benefits that outweighs shopping burdens. Retailers who offer a dominant merchandise assortment, fair prices, respect for customers, time and energy savings, and fun can engender the type of loyalty that secures their future. Gupta (2004) investigated the factors influencing the choice of private label in departmental stores of Hyderabad for two product categories processed food and toiletries. A study conducted by Memon (2006) wanted to trace the impact of private level brands on retailing dealing in garments. This work considered only two retail brands Westside and Pantaloons in Ahmedabad city and accepted the hypothesis that people are ready to switch over to other brands if the same facilities are available. Radha Krishna and Shylajan (2007) proposed a conceptual model and considered the influence of various marketing and demographic factors on consumers' habitual buying behavior towards branded articles. But identification of factors, existence of which indulges consumers to go for organized retail apparel brands are still left unturned.

Verdict Robert (1999) did a study on the differences in shopping habits of men and women. The study found that women are the primary shoppers in the United States. Differences regarding the issue of where to shop and differences in buying gifts are found between men and women. That means women have to do a lot of juggling to fit in their shopping. They don›t procrastinate because of sales, because the weather turns warm, or any other excuse pundits create. Actually, women start shopping earlier than men but finish just as late because they have so much to do.

Men and women also differ regarding where they shop. Women are most likely to shop at discount department stores for gifts. This year, nearly three–quarters of women purchased gifts at discounters, which offer convenience, price and quality of goods to help make shopping more

efficient. Plus, unlike department stores, discount department stores offer a wide variety of good's – from toys to sporting goods to home furnishings to apparel. Finally, the holiday seems to have slightly different effects on men and women. It affects men›s wallets and women's sense of "holiday spirit." Although men are not the primary shoppers, they spend about 15% more than women do on their gifts. Jackson Donald (1999) did a study on How Do you Satisfy Customers" and study provides information on customer satisfaction. Johnson Kurt (1999) did a study on making loyalty programs more rewarding. In order to keep customers joining and interacting with your loyalty program, the rewards must be strong enough to drive redemption behavior and must be perceived as attainable and relevant. In order to know what kind of rewards to offer; you should know the expected outcome or change in behavior you expect from the consumer. When customers perceive rewards as attainable and relevant, they make the decision to "play".

Research Methodology

Research Objectives

Following are the research objectives for this study:

1. To profile the customers of a selected apparel retailer
2. To study the customers' buying behavior at a selected apparel store
3. To research the underlying factors determining the customers' buying behavior at a selected apparel retailer.

Population

Customers shopping at selected apparel store

Data Collection

Primary data is collected by a survey method

Research Instrument

A structured and validated questionnaire and reliability tested with a Cron Bach alpha value of 0.792.

Sampling Method

Sampling involved mall intercept survey method. Structured questionnaire has been administered. A sample 100 respondents was targeted. Finally 80 usable questionnaires were short listed.

Data Analysis

Data is analyzed using SPSS software. Factor analysis is the statistical tool used.

Data Analysis

Following is the result of analysis of data collected through primary data collection.

Profile of the Customers

Following is the profile of the respondents:

Gender of the Respondent

Forty two respondents are male (52.5 percent) and thirty eight respondents are female (47.5 percent). Both the genders have approximately equal representation.

Table 1: Gender of the Respondent

Gender	*Frequency*	*Percent*
Male	42	52.5
Female	38	47.5
Total	80	100.0

Age of the Respondents

Majority of the respondents are in the age group of 18 to 28 (80 percent). Twenty percent of the respondents are in the age group 28 to 40.

Table 2: Age Group of the Respondents

Gender	*Frequency*	*Percent*
Between 18–28	64	80.0
Between 28–40	16	20
Total	80	100.0

Education Qualification of the Respondents

Majority of the respondents (53.4 percent) are graduates. Post graduates constitute 39 percent of the respondents. About 7.6 percent are professionally qualified.

Table 3: Education of the Respondents

	Frequency	*Percent*
Professional	6	7.6
Post graduate	31	38.8
Graduate	43	53.4
Not a graduate	0	0
Total	80	100.0

Monthly Income of the Respondents

Majority of the respondents (39 percent) have their family income above 2 lakhs rupees per month. Twenty six percent of the respondents have their family income below 50000 rupees per month.

Table 4: Monthly Family Income of the Respondents

Income in rupees	*Frequency*	*Percent*
Below 50000	21	26.4
50–100000	20	24.6
100000–200000	8	10.0
Above 200000	31	38.8
Total	80	100.0

Apparel Buying Behavior of the Respondents

Following is the analysis of respondents buying behavior of apparel:

Regular Purchase of Apparel from Organized Retailers

Majority (85 percent) purchase apparel regularly from organized retailers. Only 15 percent of the respondents are not regular purchasers from organized outlets.

Table 5: Do You Regularly Buy Apparel from Organized Retailers?

	Frequency	*Percent*
Yes	68	85.0
No	12	15.0
Total	80	100.0

Type of Apparel Purchased Mostly

About 46 percent respondents buy casualwear mostly another 46 percent of the respondents buy all types of clothing from these retailers. Only a very minor percent of respondents buy either only formal or only party wear from these stores.

Table 6: Type of Apparel Purchased Mostly

	Frequency	*Percent*
Casual	37	46.3
Formal	4	5.0
Party wear	2	2.5
All the above	37	46.3
Total	80	100.0

Frequency of Store Visits

Majority of the respondents (56 percent) visit store once in a month. About 16 percent visit the store once in a week and 15 percent visit the store occasionally.

Table 7: Frequency of Store Visit

Frequency of Store Visit	*Frequency*	*Percent*
Once in a week	13	16.3
Once in a month	45	56.3
Before an occasion	12	15.0

Frequency of Store Visit	*Frequency*	*Percent*
Once in a fortnight	8	10.0
Very rarely	2	2.5
Total	80	100.0

Buying Apparel is not Expensive in Organized Outlets

Twenty five percent of the respondents are of the opinion that apparel is not expensive in organized stores and another twenty five percent of respondents are of the opinion that apparel is expensive at organized outlets. Half of the respondents are (50 percent) are neutral.

Table 8: Buying Apparel is Expensive at Organized Outlets

	Frequency	*Percent*
Strongly disagree	2	2.5
Disagree	18	22.5
Neutral	40	50.0
Agree	14	17.5
Strongly agree	6	7.5
Total	80	100.0

Factor Analysis

Following is the result of factor analysis:

KMO and Bartlett Test

The result of KMO test indicates that the sample is quite adequate for factor analysis. The result of the Bartlett test indicates high level of data significance.

Table 9: KMO and Bartlett's Test

Kaiser–Meyer–Olkin Measure of Sampling Adequacy.		.702
Bartlett's Test of Sphericity	Approx. Chi–Square	553.806
	df	171
	Sig.	.000

Communality Value Analysis

This indicates that customers have given high priority for pick and choice shopping, family shopping under one roof, availability of latest designs and low priority for trusting the outlets blindly and advertisements.

Table 10: Communalities

	Initial	*Extraction*
Buying apparel is not expensive here	1.000	.694
I buy here because it saves money	1.000	.686
Outlets are for middle class people also	1.000	.851
Selection becomes easy because many options are available	1.000	.827
Size creates no bar in selection	1.000	.678
Accommodates all classes of buyer here	1.000	.689
Latest design is available	1.000	.868
To keep oneself fashionable	1.000	.709
Outlet name carries extra weightage	1.000	.699
One can blindly trust on a renowned outlet offerings	1.000	.510
Their apparel remains new for years	1.000	.668
Wearing this apparel gives me same feelings till rejection	1.000	.630
Stitching lasts for many years	1.000	.667
Too many are coming here so i came	1.000	.715
Attracted by many advertisements	1.000	.563
Family shopping is possible under a roof	1.000	.807
Convenient to buy as it pick and choice	1.000	.824
Buying here increases social recognition	1.000	.649
Various discounts offers attract me	1.000	.744
Extraction Method: Principal Component Analysis.		

Total Variance

Seven factors with eigen value of more than 1.0 account for about 70 percent of variance.

Table 11: Total Variance Explained

Component		*Initial Eigenvalues*			*Extraction Sums of Squared Loadings*		
		Total	*% of Variance*	*Cumulative %*	*Total*	*% of Variance*	*Cumulative %*
Dimension 0	1	3.626	19.086	19.086	3.626	19.086	19.086
	2	2.800	14.735	33.821	2.800	14.735	33.821
	3	1.860	9.789	43.610	1.860	9.789	43.610
	4	1.597	8.403	52.012	1.597	8.403	52.012
	5	1.343	7.069	59.082	1.343	7.069	59.082
	6	1.233	6.489	65.571	1.233	6.489	65.571
	7	1.020	5.368	70.939	1.020	5.368	70.939
	8	.902	4.748	75.687			
	9	.792	4.167	79.854			
	10	.728	3.831	83.685			
	11	.617	3.249	86.933			
	12	.571	3.006	89.939			
	13	.491	2.583	92.523			
	14	.424	2.231	94.753			
	15	.344	1.809	96.562			
	16	.211	1.113	97.675			
	17	.192	1.011	98.686			
	18	.152	.800	99.486			
	19	.098	.514	100.000			
Extraction Method: Principal Component Analysis.							

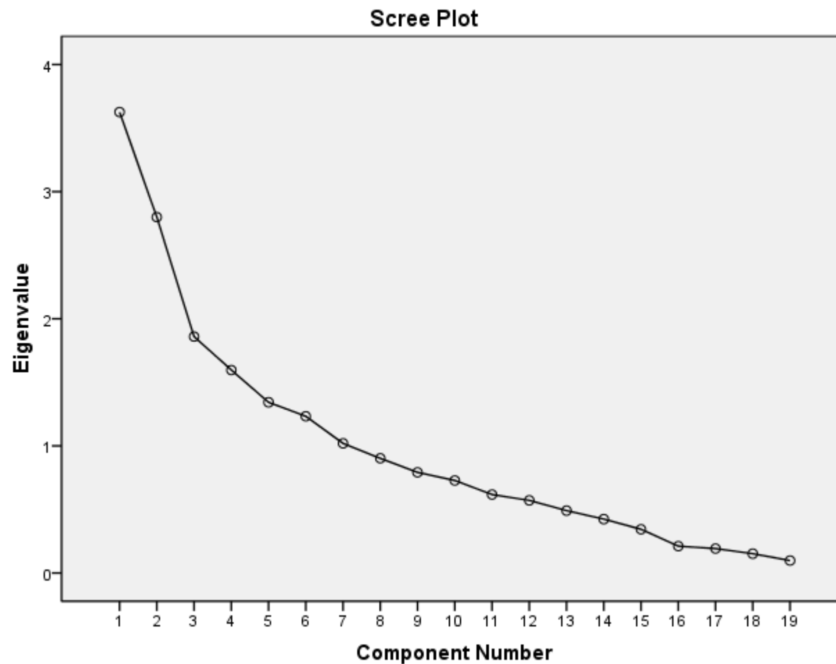


Figure 1: Scree Plot

Scree plot shows that seven factors with Eigen values more than 1.0 accounting for significant amount of variance.

Analysis of Rotated Component Matrix

An analysis of the rotated component matrix indicates following underlying factors influencing the apparel buying behaviour of the customers of the selected apparel store (Table 12).

By considering the factors with a value of more than 0.5 following deductions can be made regarding the components.

Component 1 is associated with the following factors:

1. Many people are coming here so I came
2. Various discounts attract me

Table 12: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
Duying apparel is not expensive here	–.043	.768	.116	–.010	.059	–.019	.292
I buy here because it saves money	.192	.645	.274	–.028	.332	.126	–.178
Outlets are for middle class people also	.075	–.081	.833	.156	.313	–.133	.067
Selection becomes easy because many options are available	–.101	–.064	–.030	.000	.438	.787	–.008
Size creates no bar in selection	–.028	.355	.031	.216	.002	.704	.084
Accommodates all classes of buyer here	–.085	.051	–.027	.041	.818	.077	.046
Latest design is available	–.136	.268	.018	.875	.022	.073	.084
To keep oneself fashionable	.453	–.098	.016	–.131	.187	–.068	.661
Outlet name carries extra weight age	.344	–.245	.030	.708	.130	.034	–.020
One can blindly trust on a renowned outlet offerings	.035	.095	.218	.089	.650	.143	.042
Their apparel remains new for years	–.209	.279	–.025	.179	.096	.073	.707
Wearing this apparel gives me same feelings till rejection	–.256	.224	.328	.047	–.287	.119	.555
Stitching lasts for many years	.069	.641	–.265	.267	–.099	.276	.152
Too many are coming here so I came	.721	.060	–.150	.116	–.115	–.319	.201
Attracted by many advertisements	.438	–.213	–.555	.129	–.023	–.017	.008
Family shopping is possible under a roof	.468	.074	.577	.070	–.289	.374	.143
Convenient to buy as it pick and choice	.283	.203	.494	.574	.086	.344	.062
Buying here increases social recognition	.739	.140	.152	.115	–.038	–.126	–.174
Various discounts offers attract me	.819	–.031	.014	–.019	.059	.233	–.115
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.							
a. Rotation converged in 14 iterations.							

The under laying factor can be termed as 'shopping for a social process and discounts'.

Component 2 is associated with the following factors:

1. Buying apparel is not expensive here
2. I buy here because it saves money.
3. Stitching lasts for many years.

The under laying factoris'cost consciousness and value for money'.

Component 3 is associated with following factors:

1. Outlets are for middle class people.
2. Family shopping is possible under one roof here.

The underlying factors are 'comfort for family shopping and shopping for middle class'.

Component 4 is associated with following factors:

1. Latest designs are available.
2. Convenient to buy as it offers pick and choice.

The underlying factors 'shopping & merchandise convenience for the people'.

Component 5 is associated with following factors:

1. It accommodates all classes of buyers.
2. One can blindly trust.

The underlying factorsis 'customers' trust' Component 6 is associated with following factors:

1. Selection is easy.
2. Size creates no bar in selection

The underlying factor denotes'availability of choice'.

Component 7 is associated with the following factors:

1. The apparel remains new for years
2. Wearing this apparel gives me same feelings till rejection

Theunderlying factors include 'durability and longevity of apparel quality'.

Conclusions

Majority (85 percent) purchase apparel regularly from organized outlets. About 46 percent buy mostly casual wear while another 46 percent buy all types of merchandise. Majority customers (56 percent) shop once in a month. Seventy five percent of the customers are either neutral or agree that shopping is not expensive at organized outlets.

Customers gave high priority for availability of latest designs, availability of options, shopping for middle class, convenience of pick and choice and family shopping under one roof. Customers gave low priority for advertisements and trust

The underlying factors affecting apparel buying behaviour of store customers are shopping as social compliance and for discounts, cost consciousness and value for money, family shopping, shopping and merchandise convenience, customers trust, availability of choice and durability of and longevity aspects of apparel quality.

Recommendations

Retail managers should focus and strengthen availability of latest designs, many options, convenience of pick and choice and family shopping for which customers gave high priority.

Retail mangers should focus and incorporate the underlying factors determining the apparel buying behavior of the customers in their retail marketing strategies. These factors are cost consciousness and value for money, family shopping, merchandise and shopping convenience, availability of choice and durability.

References

Berry (1996). "Retailers with a Future", *Marketing Management*, Vol. 5, No. 1, pp. 36–46.

Gupta A (2004). "Factors Affecting the Trial of Private Labels in Departmental Store: Evidence from India", *The Icfai Journal of Brand Management*, Vol. 1, No. 3, pp. 6–21.

Isita and Pradip (2010). "Factors Influencing Purchase of Apparels from Organized Retail Outlets", *The IUP 76 Journal of Marketing Management*, Vol. IX, Nos. 1 & 2, pp. 73–87.

Jackson Donald (1999). "One More Time: How Do you Satisfy Customers", *Business Horizons*, Vol. 42, pp. 71–76.

Johnson Kurt (1999). "Making LoyaltyPrograms More Rewarding", *Direct Marketing*, pp. 24–26.

Memon (2006). "Garment Lifestyle Retailing Stores: Vis á Vis Impact of Private Labels: A Paradigm Shift", *The ICFAI Journal of Marketing Management*, Vol. 5, No. 3, pp. 54–69.

Radha Krishna and Shylajan (2007). "Determinants of Habitual Buying Behavior: A Study on Branded Apparel", *TheIcfai Journal of Marketing Management*, Vol. VI, No. 3, pp. 6–21.

Verdisco Robert (1999). "Gender Specific Shopping", Chain Store Age, Vol. 75, No. 2, p. 26.

FDI and Sustainabledevelopment: Lessons to Draw for India

Jasmeet Kaur

E-mail: jkaur@sitm.ac.in

ABSTRACT

The past half a century has been marked with an unprecedented expansion of international trade. The share of international trade in world GDP has raised from 5.5 percent in 1950 to 20.5 percent in 2006 and further estimated to rise up to 55% in 2038. The resultant complex linkages between trade, environment and development are all set to redefine future economic leadership. Important amongst others is the Economics that is emerging from the relationship between trade opening and the environment. Though, there is now no debate on opening trade for higher growth, its environmental impact has often remained a point of great debate in all global fora.

Developing countries have increasingly come to see FDI as a source of economic and sustainable development, income growth and employment. Countries have liberalised their FDI regimes and pursued other policies of attracting investment. India too has shown remarkable growth and development in terms of International Trade, Globalisation, health care services and technology, etc. It has addressed the issue of how to best pursue domestic policies to maximise the benefits of foreign presence in the domestic economy. This paper attempts primarily to shed light on the second issue, by focusing on the overall effect of FDI on economic growth. The paper does not solely focus on the positive effects but it also addresses the potential

* Department of Economics, Symbiosis Institute of Telecom Management, Symbiosis International University, Pune.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 56–68

drawbacks such as the deterioration of the environmental impact of increase in FDI, especially in the extractive and heavy industries, the social consequences of an accelerated commercialisation in developing countries, the effects on competition in national markets and the risk that countries, especially transforming economies, may experience a loss of political sovereignty.

Actions taken—or not taken—in the years ahead will have a profound bearing on the future course of human development. The world lacks neither the financial resources nor the technological capabilities to act. What is missing is a sense of urgency, human solidarity and collective interest.

Keywords: Foreign Trade, Carbon Dioxide Emissions, Foreign Direct Investment, Sustainable Development, Globalization
JEL Classification: F6, F18, Q56

Introduction

The past half a century has been marked with an unprecedented expansion of international trade. The share of international trade in world GDP has been raised from 5.5 percent in 1950 to 20.5 percent in 2006 and further estimated to rise up to 55% in 2038. The resultant complex linkages between trade, environment and development are all set to redefine future economic leadership. Important amongst others is the Economics that is emerging from the relationship between trade opening and the environment. Though, there is now no debate on opening trade for higher growth, its environmental impact has often remained a point of great debate in all global fora.

Developing countries have increasingly come to see FDI as a source of economic and sustainable development, income growth and employment. Countries have liberalised their FDI regimes and pursued other policies of attracting investment. India too has shown remarkable growth and development in terms of International Trade, Globalisation, health care services and technology, etc. It has addressed the issue of how to best pursue domestic policies to maximise the benefits of foreign presence in the domestic economy. This paper attempts primarily to shed light on the second issue, by focusing on the overall effect of FDI on economic

growth. The paper does not solely focus on the positive effects but it also addresses the potential drawbacks such as the deterioration of the environmental impact of FDI, especially in the extractive and heavy industries, the social consequences of an accelerated commercialisation in developing countries, the effects on competition in national markets and the risk that countries, especially transforming economies, may experience a loss of political sovereignty.

The positive benefits of FDI to the receiving host country are manifold and include capital, skill, technology transfer, market access and export promotion. The actual impact on the environment, however, may be larger because CO_2 emission is one of the many pollutants generated by economic activities. With India having emerged as the fourth highest in the global ranking of CO_2 emissions by turn of this century.

Theoretical Framework

Economic growth in developing countries depends on many factors, including internal economic conditions, as well as such external factors as FDI, portfolio investment and foreign aid. All of these external factors depend on internal economic policies, such as institutional and macroeconomic reforms designed to stabilize the economy. Since there is a marked trend towards better policy among poor countries, the climate for effective aid is improving (Burnside and Dollar, 2000).

According to (Magdoff 1976) the Third World progressive – breaking down obsolete structures and building ' productive forces' denounce the negative effects as the exploitative tendencies of the 'northern capitalists' search for new markets, new sources of cheap labour/inputs, which ultimately leads to a distorted social, political and economic environment. The 'Dependency theorists' in a similar contention saw MNC investment as 'growth hinderants' by draining away the domestically usable surplus, stifling local entrepreneurial capacity and distorting the entire pattern of growth as per (Bhagwati and Brecher, 1980, 1981; Grieco, 1986).

Finally, the successful introduction of competition may have a negative short-term effect on the host countries' employment rates, but in the longer term this trend should be reversed by the stronger economic growth stemming from more competitive markets. This accentuates a general need

for labour market flexibility, and it may present national authorities with difficult policy choices.

The groundbreaking research by the prestigious Globalization and Economic Policy Centre (GEP) at the University of Nottingham Malaysia Campus shows that the flow of money from overseas cannot sustain a nation's economic growth and that policy-makers should consider tightening the lax environmental regulations that have encouraged much foreign investment.

The worldwide shift in the economic frame with the turn of the century in the garb of the LPG (Liberalization, Privatization and Globalization) once again emphatically brought back the FDI Centre stage in the vertical process of economic development overlooking the horizontal expansion. Keeping in line with the worldwide opening of markets, the New Industrial Policy statement (1991, NIPS) of India had a free attitude towards foreign collaborations, both technical as well as financial and a more open door policy towards direct foreign investments (DFIs). Studies have revealed FDI has been a major engine for the rapid economic growth of many South East Asian countries, but the success of these economies has been achieved at the expense of the environment. But, according to Lee, 2008many academicians believe that a number of South East Asian nations have been misled into accepting that increased pollution is a price worth paying for the future well-being of their economies.

By and large, studies have found a positive links between FDI and growth.However, FDI has comparatively lesser positive links in least developed economies, thereby suggesting existence of "threshold level of development" (Blomstrom and Kokka, 2003 and Blomstrom et al., 1994). Athreye and Kapur (2001) emphasized that since the contribution of FDI to domestic capital is quite small, growth-led FDI is more likely than FDI-led growth.

Foreign Direct Investment (FDI) as an important driver of growth. It is an important source of non-debtfinancial resources for country for economic development. Besides it is a means of achieving technical know how and employment generation of employment. However, many are of the view that FDI is a big threat to sovereignty of host and domestic business houses. Faster exploitation of natural resources for profit may deprive host from such resources in long run. Rapid growth may exhaust

all resources and create environmental problems for generations to come. Midst of debate on pros and cons of FDI, world economy has observed a phenomenal change in volume and pattern of FDI. There is clearly an intense global competition of FDI. India is not behind this global race of attracting foreign investment. India emerged as an attractive FDI destination in services but has failed to evolve a manufacturing hub which has greater economic benefit. FDI though one of the important sources of financing the economic development, but is not a solution for poverty eradication, unemployment and other economic ills. India needs a massive investment to achieve the goals of vision 20-20. Policy makers need to ensure transparency and consistency in policy making alongwith comprehensive long term development strategy. In the light of the above the issue of Indian trade future in global market becomes a new area of concern.

Over the past few years, "Sustainable Development" (SD) has emerged as the latest development catchphrase. A wide range of nongovernmental as well as governmental organizations have embraced it as the new paradigm of development. A review of the literature that has sprung up around the concept of Sustainable Development indicates, however, a lack of consistency in its interpretation. More important, while the all-encompassing nature of the concept gives it political strength, its current formulation by the mainstream of Sustainable Development thinking contains significant weaknesses. These include an incomplete perception of the problems of poverty and environmental degradation, and confusion about the role of economic growth and about the concepts of sustainability and participation.

As per Defra (2009) Sustainable Development is categorized as consumption and production, climate change and energy, natural resource protection and enhancement and finally creating sustainable communities. The world will take another decade to understand the above and make changes to safeguard our environment for future. The impact has to be studied in both short run and long run time frame.

Objectives and Methodology

In lieu of the above stated research and data review the current exercise enhances further on the effect of FDI over our countries sustainable development.

Hence the objectives of the study have been identified as follows:

1. To measure the growth rates of FDI inflows in India and other developing countries.
2. To measure the development profile of these countries.
3. To ascertain the relationship between FDI inflows, growth and pollution in these countries.

The study shall rest on the following Hypotheses:

1. Growing FDI inflows in the developing countries have resulted in better development and sustainable growth.
2. Growing FDI inflows in developing and developed countries have resulted in the increase of environmental pollution.

The paper is based on secondary data pertaining to countries collected from various sources such as Annual Reports of various countries, Central Statistical Organization, Economic &Political Weekly Research foundation, Reserve Bank of India/State Bank of India publications, Innovation Report, Human Development Report, World Bank data and The World Investment Report 2012.

The levels of growth are taken as proxy to GDP growth rates and the levels of development to GDP Per Capita of chosen countries. In order to measure the development profile of countries HDI is taken as additional variable so as to reflect the currently popular connotation of Human Resource Development as being an important indicator of development process. The variable chosen to reflect the environmental pollution are CO_2 emissions and decadal rate of growth of CO_2 emissions.In order to establish the degree and nature of relationship among all the determinants simple Correlation Coefficients have been calculated.

Trend of FDI in India

During the first few decades, India's policy towards FDI or any foreign capital remained highly restrictive, as a part of its stringent licensing rules, tariffs, import-substitution policy and various other rules and regulations.

The abolition on patent rights on certain products in industry also severely curtailed Intellectual Property Rights, due to which FDI was opposed for

preferential technical collaboration agreements. In 1980's some softening on FDI approval was accepted and finally sustained liberalization in 1991.

FDI is now permitted up to 51% ownership and 100 % on a case-by-case basis in some priority areas like pharmaceuticals, airports, hotels etc. Technology Policy is also reformed for greater recognition to IPR procedures to further simplify the flow of FDI.

"New generation" investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. This leads to specific investment policy challenges at the national and international levels. At the national level, these include integrating investment policy into development strategy, incorporating sustainable development objectives in investment policy and ensuring investment policy relevance and effectiveness. At the international level, there is a need to strengthen the development dimension of international investment agreements (IIAs), balance the rights and obligations of States and investors, and manage the systemic complexity of the IIA regime.

Sustainable Development: Increasing Recognition

It is also a matter of concern for any developing economy like India and with its image as Emerging Market Economies (EME's) all the above mentioned agreements on FDI must ensure that they do not interfere in the countries development but should focus on the environmental and positive social impact of investment. The progressive policies in terms of macroeconomic fundamentals increased the FDI inflows nearly 5 fold from first decade to the present millennium.

This paper has been organized in the following manner: 1. Global FDI inflows and FDI inflows in India 2.Growth profiles of countries mentioned 3. Environmental pollution in these countries 4. Inter relationship between FDI and growth.

Analysis

On the basis of Table 1, we can see that there has been remarkable increase of 5.6% in FDI inflows of India and also of the transforming economies.

Table 1: FDI Inflows: Statement of FDI Inflows of Developing, Transforming & Developed Countries

Economy	2004	2005	2006	2007	2008	2009	2010	2011
Developed	414186	613089	972762	1358628	1019648	606212	618586	747860
Transforming	30308	30948	54548	90866	114361	72386	73755	92163
Developing	290397	229292	433764	529344	620733	519225	616661	684399
India	6051	8961	20328	25506	43406	35596	24159	31554

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).(Rs in billions)

The developed economies have experienced a downfall in some of the years but then again regained momentum in last 2 years because of the aftermaths of Recession.

The basic aim of these countries is to transform their economies from export based to domestic demand driven economies thereby resulting in greater international resilience to external economic crisis.

Table 2: Annual Average Growth Rate of GDP (in %)

Type	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Developing Economies	7.2	6.7	7.1	7.3	6	3.8	7.5	6.2
Transforming Economies	7.3	6.5	7.2	8.2	7.8	7.1	7.9	7.8
Developed Economies	2.9	2.3	2.8	2.5	2	2.6	3.2	2.6
India	8.5	8.8	9.2	9.7	6.2	6.6	10.6	7.2

Source: UNDP Report 2012.

The economies have shown remarkable economic performance, measured in terms of growth of gross domestic product (GDP). Increasing sectoral specialization and competitive advantage in many economies perhaps contributes to these economies' phenomenal .GDP growth rate. The growth and development of manufacturing industries and the presence of global corporations are thought to be facilitating the emergence of a service-dominated economy. Transforming Economies are showing special

growth levels since these are the ones adapting to changing global market conditions and liberalization.

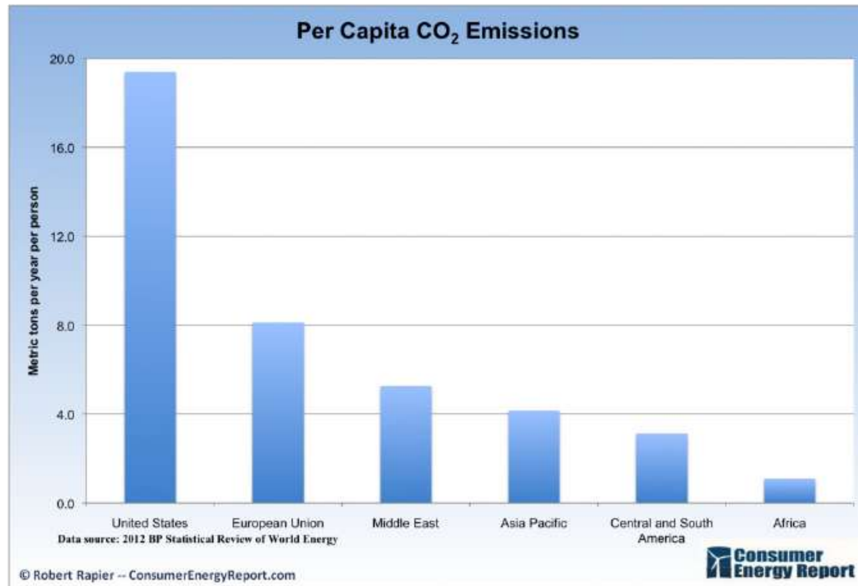


Figure 1: Environmental Pollution CO_2 Emissions

Developing countries seek the same modern conveniences—dishwashers, televisions, computers, and cars—enjoyed by the developed world and which are currently powered mostly by fossil fuels. We can imagine that they can improve their standard of living without increasing their fossil fuel consumption, but what do we have to point to in order to show that it can be done?

The Report addresses some of the critical issues. While acknowledging the threat posed by rising emissions from major developing countries, the northern governments have to initiate the deepest and earliest cuts. The report points out those rich countries carry overwhelming historic responsibility for the problem, have far deeper carbon footprints, and have the financial and technological capabilities to act. Scenarios for future emissions reinforce the scale of the challenge ahead. On current trends, CO_2 emissions are projected to increase by 50% to 2030—an outcome that would make dangerous climate change inevitable. "The bottom line is that the global energy system is out of alignment with the

ecological systems that sustain our planet," commented Mr. Watkins, adding: "realignment will take a fundamental shift in regulation, market incentives, and international cooperation."

Table 3: Correlation Between FDI, Economic Growth and Pollution

Indicators	*Correlation-Coefficient*	*Significance*
FDI & Growth	–0.32	Moderate degree of negative correlation
Growth & Pollution	0.597	Moderate degree of positive correlation
FDI & Pollution	0.988	High degree of positive correlation
FDI & GDP Growth	–0.234	Moderate degree of negative correlation

Conclusion

The table above clearly reveals that FDI inflows in absolute as well as growth terms do not have positive relationship with growth indicators. Similar results have been confirmed by other studies that no robust relationship between FDI and income growth is established (Busse et al., 2006). They argue that countries need a sound business environment in the form of good government regulations to be able to benefit from FDI.

This research paper shows that the conventional wisdom that FDI is a key factor in sustained economic growth may provide an incomplete picture. Also the arguments put forth by the environmentalists against the very concept of privatization of the atmospheric commons (you can't sell what you don't own) that allows the market and corporate actors (many of whom are the world's biggest polluters) to determine the pace and development of the 'carbon market'; cannot be overlooked. The neoliberal economic paradigm on which carbon trading is based is fatally flawed and rewards polluters by bestowing tradable property rights on them in an arbitrary, unequal fashion. Carbon Trading is worse as trading in emissions effectively creates a commodity literally out of thin air; unlike markets that trade in tangible commodities, this one trades in the absence of something no one wants: greenhouse gases in the atmosphere. Pollution rights promote rent-seeking rather than purposive action to reduce emissions through material or energy saving and reducing fossil

fuel dependence. Worse, they inhibit serious innovation and structural change while rewarding superficial, paltry "end-of-pipe" solutions.

Governments have created this network to promote and protect foreign investment. These agreements respond to investors' requests, and provide a valuable tool to attract desirable inward FDI. Investing abroad inevitably carries increased political and economic risks, particularly when an investment involves large sunk costs or a long-term commitment of capital. As outward FDI from Asia turns increasingly toward developing countries with less stable legal and judicial frameworks, the risks associated with foreign investment increases in India. And in an era of capital shortage, investment destinations will compete to obtain the most desirable investment projects.

Overall policy trends during the crisis in India have so far been mostly favorable to FDI, both nationally and internationally. However, in some countries a more restrictive FDI approach has emerged. There is also growing evidence of "covert" protectionism.

An analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process. Even during the recent global crisis, FDI inflows to India did not show as much moderation as was the case at the global level as well as in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained sluggish despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3 percent.

In Table 3 it is clearly showing that there exists a negative relationship between FDI and GDP growth levels as well as very high positive correlation between FDI and CO_2 emissions which proves the first hypothesis true that increasing FDI inflows are actually a bane.The world lacks neither the financial resources nor the technological capabilities to act. What is missing is a sense of urgency, human solidarity and collective interest.Today, the geopolitics of climate is profoundly affected by the

convergence of the diverse crises currently sweeping the world and this current framing is in total failure.

Against this backdrop, it is pertinent to highlight the number of measures announced by the Government of India on April 1, 2011 to further liberalize the FDI policy to promote FDI inflows to India. These measures, inter alia included:

(i) allowing issuance of equity shares against non-cash transactions such as import of capital goods under the approval route,

(ii) removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the 'same field',

(iii) providing the flexibility to companies to prescribe a conversion formula subject to FEMA/SEBI guidelines instead of specifying the price of convertible instruments upfront,

(iv) simplifying the procedures for classification of companies into two categories – 'companies owned or controlled by foreign investors' and 'companies owned and controlled by Indian residents' and

(v) allowing FDI in the development and production of seeds and planting material without the stipulation of 'under controlled conditions'.

These measures are expected to boost India's image as a preferred investment destination and attract FDI inflows to India in the near future.

If action is not taken to curb global carbon emissions, climate change could cost between 5 and 20 percent of the annual global gross domestic product, according to a British government report. In comparison, it would take 1 percent of GDP to lessen the most damaging effects of climate change, the report says.Actions taken—or not taken—in the years ahead will have a profound bearing on the future course of human development. The world lacks neither the financial resources nor the technological capabilities to act. What is missing is a sense of urgency, human solidarity and collective interest.

References

Ashok S. (2006), "Carbon trading: A critical conversation on Climate Change, Privatization and Power" *Development Dialogue* No 48.

Bhagwati, J. and Brecher, R.A. (1980). “National Welfare in an open economy in the presence of foreign owned factors of production”, *Journal of International Economics*, 19: 103-115.

Bhagwati, J. and Brecher, R.A. (1981). “Foreign ownership and the theory of trade and welfare”, *Journal of Political Economy*, 89: 497-511.

British Government Report, 2011.

Burcu Türkcan & I. Hakan Yetkiner (2008). “Endogenous Determination of FDI Growth and Economic Growth: The OECD Case,” *Working Papers 0807*, Izmir University of Economics.

Busse, Matthias & Groizard, José Luis, (2006). “FDI, regulations and growth,” Proceedings of the German Development Economics Conference, Berlin, *VereinfürSocialpolitik*, Research Committee Development Economics.

Grieco, J. (1986). “Foreign investment and development: Theories and evidence’, in T. Moran, ed., *Investing in Development: New Roles for Private Capital*, Washington, DC: Overseas Development Council.

Defra (2009). UK Department for the Environment, Food and Rural Affairs.

Division of International Trade and Finance of the Department of Economic and Policy Research, Reserve Bank of India.

Hennart, Jean-Francois (1982). *A Theory of Multinational Enterprise*, *Ann. Arbor*: The University of Michigan Press.

Human Development Report 2008/2009/2010/2011.

Journal of Economic Development (2009). Volume 34.

Khare, Mona (2004). “Foreign direct investments in India – A course to sustained and equitable growth”, *MadhyaPradesh Economic Journal*, Conference volume.

Laura Alfaro & Areendam Chanda & Sebnem Kalemli-Ozcan & Selin Sayek (2006). “How does foreign direct investment promote economic growth? Exploring the effects of financial markets on linkages,” *DEGIT Conference Papers* c011_023, DEGIT, Dynamics, Economic Growth, and International Trade.

Lee Chew ging (2008). Asian tigers urged to reject polluting foreign investorshttp://www.physorg.com/news121345228.html

Spash Clive L. (2007). “Climate change – Need for new economic thought” EPW Vol. XLII No. 6, Feb., 2007.

UNCTAD (2003). *World Investment Report: FDI Policies for Development-Nationaland International Perspectives*, New York and Geneva: United Nations.

World Bank (2007). *World Development Indicators*, Washington D.C., World Bank. (2003, 2004, 2005), *World Investment Report*, Washington D.C., World Bank.

Competitive Advantage of India for FDI in Retail: A Porter's Diamond Approach

Prafulla A. Pawar* **and Nitin B. Veer***

E-mail: mypumba@gmail.com; nitinbveer@gmail.com

ABSTRACT

The rationale of the study was to evaluate the strategic competitive advantage of India for foreign direct investment in retail sector and also to analyse the world wide retail market opportunity as compared with Indian retail sector. Objective of this study was to analyse factors of competitiveness of nation or retail industry and relate diamond model to the India's retail industry. Different market research reports on organized retail published by market research firm, government publication, industry news and online resource were used for data analysis. Michael Porter's model on competitive advantage of nation is used here to conceptualise the determinant of diamond model. All the six determinants of competitive advantage are showing favourable sign for competitiveness of retail industry. A factor of competitiveness is support to the proposition of FDI in retail. Similarly; India can get advantage of high market demand, largest market size, economy of scale, low penetration of retail and global sourcing for retail sector.

Keywords*:* Organized Retail, Nation's Competitiveness, Porter's Diamond Model, Competitive Advantage, Foreign Direct Investment

* Department of Management Sciences (PUMBA), University of Pune, Pune.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 69–83

Introduction

In the globe, we have seen the nations which are specialised in the particular industry. National competitiveness achieved by nation over the period of doing successful business in the industry. As we know, Japanese are specialised in the car manufacturing and world class management technique. Even if we take the example of Korea, they are also specialised in the electronics and allied businessess. Switzerland is specialised in pharmaceuticals, Britain has got success in Chocolate and biscuit industry and US is expert in weapons and internet business. If we considered these countries for analysis, we can conclude that they have different factor of production, labour cost, and government policies but although, they have got competitive advantage in that particular industry. Proposed study will analyse these factors taking into consideration of Indian retail industry. We have discussed those factors which are important in the competitiveness. The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power. The infrastructure is improving greatly in all regions is benefiting the market. Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market. Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness. Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region. Michael Porter's study on the determinants of international competitiveness suggests that the home country demand is the source of competitive advantage for domestic firms. The competitive advantage of any business or country over the others largely depends upon one, or more, of the four key determinants of the nation's international competitiveness. Indication of any industries success in the particular country is based on the demand condition and foreign direct inflow in that country. In short, Porter's model states that a global firm needs to have a sustainable competitive advantage based on the successful utilization of components of its home country diamond (Porter, 1990). Our earlier study on the competitiveness; we have discussed the competitive advantage. We are extending the research work in broad way by taking international factor.

Present study uses "The National Diamond" to illustrate the present situation of foreign direct investment in India for getting competitive advantage in the retail industry. Government of India is in the favour of passing foreign direct investment bill in single brand and multi-brand retail sector and definitely, government decision will help to the retail to compete with other Asian countries. Porter advanced the diamond frame to explain above competitive advantage of Nation. It is significant to analyse the competitive environment of Indian retail sector. Research Problem is "Does Indian retail will get success over the family owned business to compete for competitiveness?" and another research problem is "which is the most important determinant of competitive advantage of India for investment in retail sector? We have set objective in the study is to analyse various factors of competitiveness of nation and relate these factors with Diamond model to the India's retail industry.

Indian Retail Sector

According to CRISIL (2012) analysed that the organized retail is penetrated in Indian retail market at the 10% growth rate. In 2006-07 total retail market was Rs 10 trillion and organized retail had Rs 0.6 trillion (5.4% of organized retail) market size. In 2011-12 organized retail penetrated with 21% growth rate and total retail market size is Rs 23 trillion and organized retail has 1.6 trillion market size .CRISIL predicted the growth of Indian retail in 2016-17 will be Rs 47 trillion and market share of organized will be 10%. India is one of the most attractive retail destinations in the world. FDI inflows in single brand trading during April 2000 to September 2012 stood at US $4270 million as per data released by Department of Industrial Policy and Promotion. The retail sector account for 22% of India's GDP and contributes to 8% of total employment (IBEF, 2012). A.T.Kearney (2012) released report on FDI provides a unique look at the present and future prospect for international investment flows. In their analysis India came on the 2nd ranking in FDI confidence index 2012, it happened because of current stand of Indian government on promotion of FDI policy in India. In 2012 India is emerged as 5th most favourable destination for international retailer to invest in India (A.T. Kearney, 2012). The Ministry of commerce and industry is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sect oral policy (DIPP, 2012).

The National Diamond Model

This is an economical model of competitiveness study developed by Michael Porter in his book The Competitive Advantage of Nations, where he has published his concept of national competitiveness on why particular industries become competitive in particular locations and in the particular business. Afterwards, this model has been expanded by many researchers (Porter, 1990).

Literature Review

A nation's prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services. Sound macroeconomic policies and stable political and regularity of institutions are necessary but not sufficient conditions to ensure a prosperous economy. Competitiveness is rooted in a nation's microeconomic fundamentals-the sophistication of company operations and strategies and the quality of the microeconomic business environment in which companies compete. An understanding of the microeconomic foundations of competitiveness is fundamental to national economic policy (Porter, 1990). World Economic Forum (2012) in its global competitiveness report 2011-2012 defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country". National competitiveness is a nation's ability to improve the economic and social welfare of its people through active and purposeful participation in the global market (Ali, 2008). World Economic Forum considered the determinant for the competitiveness of nation on basis of twelve pillars of competitiveness. These pillars are institutions, infrastructure, microeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, innovation, etc. The evolution of concept competitive advantage came in the existence in the 1970s (South, 1980). South described the process of strategic management and the management of competitive advantage as specifically identifying, developing, and taking advantage of the enclaves through which a tangible and sustainable business edge can be achieved. However, the concept of competitive advantage truly became popular with Porter's works (1980, 1985) in the strategic competitive management discipline.

According to Porter (1990) competitive advantage grows from the value a firm is able to create for its buyers that exceeds the firm's cost of creating the product or service. Karnani (1984) concluded concept of competitive advantage for competitiveness analysis and it results from a combination of cost and differentiation as alternative strategy for competition. Day (1988) stated that competitive advantage is not a single entity, but a complex construct consisting of the sum of many parts, and "there is no common meaning for the term competitive advantage". He stressed that a complete definition must describe not only the state of the advantage of competitiveness but also how that advantage was gained as well with the help of past cases of successful industries in different country. Competitive advantage in their eyes consists of positional and performance superiority as a result of relative to the competition in the skills and resources a business deploys. These skills and resources make up the positional advantages stress on productivity as of cost and differentiation. Thus, a competitive advantage is defined as a significant edge over one's rivals in the marketplace in cost, differentiation. Porter (1992) conceptualized three generic competitive strategies like cost, differentiation and focus stratergy. Most of the firm uses this generic competitive strategy to differentiate themselves from competitor."In the generalized double diamond model, national competitiveness is defined as the capability of firms engaged in value added activities in a specific industry in a particular country to sustain this value added over long periods of time in spite of international competition". This double diamond model is being criticised on the porter's model of competitive in advantage the certain issues. National diamond model has considered domestic factor of production in his theory but he did not include the foreign activity in the same business which for both domestically owned and foreign owned firms. Michael Porter does not incorporate International business activities into his model as he makes a distinction between geographic scope of competition and the geographic locus of competitive advantage. Second, sustainability may require a geographic configuration spanning many countries, whereby firm specific and location advantages present in several nations may complement each other. According to Porter, the primary sources of competitive advantage of Singapore are basic factors such as location and unskilled/semi-skilled labour which are not very important to national competitive advantage. Double diamond model is further extended by

some researcher on the basis of consideration of international factor. In fact, Singapore has been the most successful economy among the NICs. Singapore's success is mainly due to inbound FDI by foreign multinational enterprises in Singapore, as well as outbound FDI by Singapore firms in foreign countries. The inbound FDI brings foreign capital and technology; whereas outbound FDI allows Singapore to gain access to cheap labour and natural resources. It is the combination of domestic and international diamond determinants that leads to a sustainable competitive advantage in many Singaporean industries.

Research Framework

Analysis of competitiveness is possible through the understanding of secondary data and government figures like reports, government publication, research database, books, journals and newspaper. Researcher used descriptive and comparative research methodology to conclude this research. Michael Porter has developed this model for analysis of competitiveness of country and individual industry. Michael Porter's National diamond model is used to set the proposition of validity of statement. Hypothesis is evaluated by using proposition of the current scenario of Indian retail industry. Analysis of competitive advantage of India for foreign direct investment (FDI) is concluded on the basis of Porter's suggested determinant of competitiveness of Nation's and Global competitiveness Report 2011-2012 which is published by World Economic Forum. We have used our earlier work for present study also. This study is extension to our earlier research work which is mentioned in the conclusion also.

Determinants of Porter's Diamond Model (Porter, 1990)

Factor conditions are human resources, physical resources, knowledge resources, capital resources and infrastructure. Specialized resources are often specific for an industry and important for its competitiveness. Specific resources can be created to compensate for factor disadvantages.

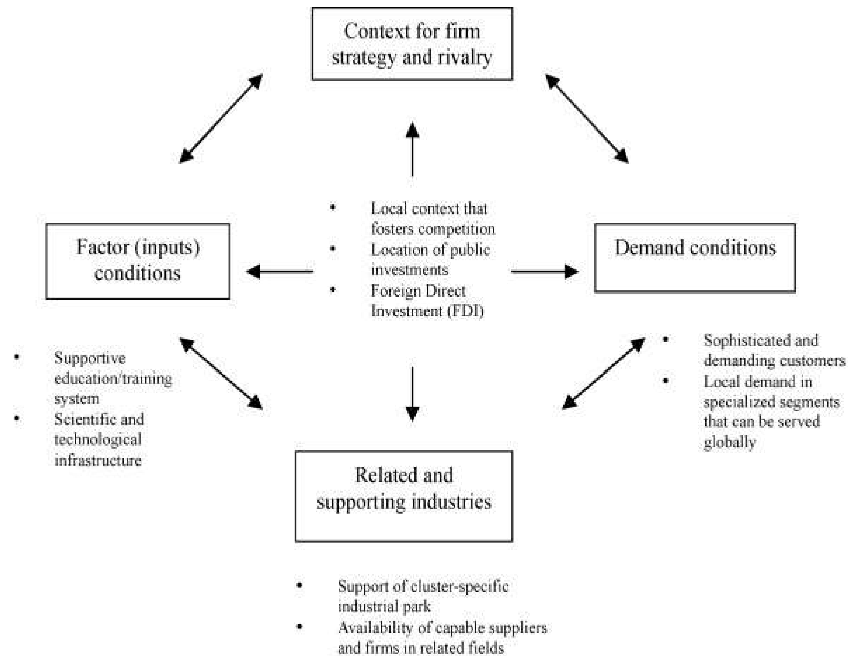
Demand conditions in the home market can help companies create a competitive advantage, when sophisticated home market buyers pressure firms to innovate faster and to create more advanced products than those of competitors.

Related and supporting industries can produce inputs which are important for innovation and internationalization. These industries provide cost-effective inputs, but they also participate in the upgrading process, thus stimulating other companies in the chain to innovate.

Firm strategy, structure and rivalry constitute the fourth determinant of competitiveness. The way in which companies are created, set goals and are managed is important for success. But the presence of intense rivalry in the home base is also important; it creates pressure to innovate in order to upgrade competitiveness.

Government can influence each of the above four determinants of competitiveness. Clearly government can influence the supply conditions of key production factors, demand conditions in the home market, and competition between firms. Government interventions can occur at local, regional, national or international level.

Chance events are occurrences that are outside of control of a firm. They are important because they create discontinuities in which some gain competitive positions and some lose.



Source: Wonglimpiyarat (2010), "Innovation index and the innovative capacity of nations". *Futures*, 42(3), 247-253.

Factor Condition

Factor of production are often described in very broad term such as land, labour and capital, which are too general to bear on competitive advantage in strategically distinct industries (Porter, 1990).we have analysed factor condition related to the retail business. Basically, human resource, physical resource and knowledge resource are the important factor of production and competitiveness.

Human resources – We considered human resource is key source of the business success and it helps to the getting competitive advantages. Seventy percentage of Indian population is under age thirty-five (Yaohua, 2012). Young population is definitely an advantage for economy growth because these are the productive population group. According to UN and Goldman Sachs bank's research report predicted that Indian's population is growing up and now India is the second largest population of the world. Population will increase in higher percentage of growth rate in the next forty years. It indicates that labour force is increasing and the cost of effectiveness is possible through working population. India does possess a number of remarkable strengths in the more advanced and complex drivers of competitiveness. This reversed pattern of development is characteristic of India. The countries boast a vast household market that allows for economies of scale and attract investors. It can rely on a well-developed and sophisticated financial market that can channel financial resources to good use, and it boasts reasonably sophisticated and innovative businesses (WEF, 2012).

Physical resources – It is dificult for the any industry to establise their business in the country without proper infrastructure.We have considered this subtitle with relevance to the retail development.Retail can be developed initially in the metro cities and for such development transport system,electricity and support of construction industry is required. Infrastructure is a major sector that propels overall development of the Indian economy. The Secretariat for infrastructure in the planning commission is involved in initiating policies that would ensure time-bound creation of world class infrastructure in the country. This section focuses on power, bridges, dams, roads and urban infrastructure development. Details of the projects, organizations, policies, timelines, schemes, spending on infrastructure are provided for the users (Government of

India, 2012). India does have good infrastructural development to enter into the competition.

Knowledge resources – "India has all the ingredients of a knowledge-based economy by virtue of its human resource strength," said Ajay Dua, secretary, Department of Industrial Policy and Promotion, at a session 'FDI: Boom times ahead.' The session was held in the India Economic Summit 2005, jointly organized by the Confederation of Indian Industry and the World Economic Forum in Delhi on Monday. "Dua said that among the 102 countries listed in World Economic Forum, India ranks third as far as availability of engineers and scientists is concerned, its quality of management schools comes eighth, its educational institutions are ranked 28, while the quality of its research institutions stands at 20" (Rediff.com, 2005).

Demand Condition

Demand condition is another important determinant of national competitiveness. Burenstam Linder (1961) argues that there must be local demand for product before a nation exports that product, because local demand is necessary to allow local firms to learn how to succeed in the industry. Basically demand condition of any industry depends on size of home demand, demand size, pattern of growth and number of buyers. This is most important factor in the concept of competitive advantage. Retail business depends on the local demand and supply of the products. India is 2nd largest populated country, due to this reason we have examine the demand factor as important determinant in the analysis.

Local demand – According to the (MHA, 2012) estimated in census 2011 that urban population of India is stood at 31.16 percent which was 27.81 in 2001. Urbanisation of country is right indicator of development and it is growth engine of economy. Purchasing ability of any country is depending on disposable income of country. Disposable incomes of Indian consumers have increased significantly between 2001-02 and 2010-11. The share of households with low income levels has fallen over the years, while the share of those falling in higher income brackets is on the rise. Going forward, we expect favourable demographics to drive consumption growth (NCAER, CRISIL, 2012). Even comment made by Tushar Poddar (2012)

chief India economist in Global Investment Research Division, Goldman Sachet discusses that India's economic development over the last decade has been quite notable: real GDP growth was approximately 8% annually over that period, driven by a combination of rising investment as well as consumption demand and greater productivity growth. The country's demographic dividend will be substantial over the next couple of decades.

Related and Supporting Industries

Business can't sustain without proper support of related and supporting industries. The presence or absence in the nation of supplier industries and related industries that is internationally competitive. Hirschman (1988) stated that in his book economic development emphasize the importance of complementarities and linkage among industries to the development process.

Availability of cluster specific supportive industry – India is refers as the nation of shopkeepers; India has highest density of retail outlets-over 15 million in the world. Most of outlets in India are located in unorganized sector (independent store); the average size of these is much smaller than 500sq.ft. (Assocham, 2012). Related to retail industry there are various major retails are India like Future Group, Shopper Stop, Treant, Landmark, Reliance, Aditya Birla etc.These above retailers are already in India with hypermarket, Specialty store, departmental store, Superstore formats. India has both related and supplier retail industry and both are positive proposition to get competitive advantage. Now a day, India is developing cluster specific industries and providing them integrated logistic system with specialized transport hub and store facility.

Availability of capable supplier – India is the world's largest producer of fresh fruits and vegetables, milk, spices, meats, fibrous crops such as jute, several staples such as millets and castor oil seed. India is the second largest producer of wheat and rice, the world's major food staples. India ranked within the world's five largest producers of over 80% of agricultural products, including many cash crops such as coffee and cotton (F.A.O, 2010).There are some other industry clusters also present in India like Auto cluster in Pune, Pharmaceutical cluster in Solan , Baddi and proposed DMIC project, etc. All these clusters are helpful for the retail growth in India.

Firm Strategy, Structure and Rivalry

The competitiveness depends upon how companies created, organized, and managed, and the nature of domestic rivalry. There could be different strategies for running firm and growing from small to the larger on. India does have such corporate culture to run international firm in the Indian business environment.

Economy of scale – In the relation of national competitive advantage, India has significant advantage in terms of low labour cost, availability of raw material, etc., and many foreign retailers such as Arrow, Levis, JC Penny, Wal-Mart, and Gap are already sourcing their products from India with rising labour cost in developed countries (Pawar & Veer, 2013). Many companies are shifting their operation to developing countries such as India and China. Wal-Mart has decided to set up a completely owned subsidiary in India for product sourcing (Mukharji & Patel, 2005).

Corporate Governance – India has changed his bilateral trade relation after 1991 and got more liberalised in the business term. A variety of corporate entered into the India after this liberalisation decision. The organisation goals, strategies, and ways of organizing business are different in every nation. National competitive advantage results from a good match between these choices and the sources of competitive advantage in a particular industry. The way of one firm's management and its competitive form is affected by national circumstances. No one managerial system is universally appropriate. Nations will tend to succeed in industries on the premise that the management practices and modes of organization favoured by the national environment are well suited to the industries sources of competitive advantage (Porter, 1990).

Government

Government can influence each of the four determinants either positively or negatively, as it should be evident from some example related to investment decision in India because government approval is the first entry rout. Before October, 2012 clarification of policies on FDI in retail was restricted to single brand only (DIPP, 2012). Now Government of India approved FDI in single and multi brand on certain rules and regulation. Due to this policy many foreign retailer are entering into the India

through direct investment route. They are already entering into India though joint venture e.g.Wal-Mart with Bharti enterprises and Spencer's with RPG group. Initially, it was difficult to business with India because of rigid trade barriers were their but after liberalisation all barriers are being broken down. Now a day, Government is going to allow FDI in the retail trade also. Obviously, this decision will be more favourable and achievable for foreign retailers.

Proposed FDI bill on the retail:

FDI in multi brand retail: Status: Under planning 51% (DIPP, 2012)

- 30 percent procurement of manufactured products must be from SMEs
- Minimum investment cap is USD100 million
- Minimum 50 percent of total FDI must be invested in back-end infrastructure
- 50 percent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from farmers

FDI in single brand retail: Status: Policy passed 100% (DIPP, 2012)

- Products to be sold under the same brand internationally
- Sale of multi brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51 percent, 30 percent sourcing must be from SMEs

Chance

One of the important outcomes of competitive advantage is innovation in business practices and negotiation in bilateral trade. Competitive business environment creates pressure on the existing businesses and practices, due to these companies are trying to do more research on the existing work. Impact of this competition is innovation and it leads to higher in the productivity. Events are occurrences that are outside of control of a firm. They are important because they create discontinuities in which some gain competitive positions and some lose. It is another determinant of competitiveness plays important role in the competitive advantage of

nation. The European sovereign debt crisis is a financial crisis in the European Union that has made it difficult or impossible for some countries in the euro zone to repay or re-finance their financial bodies without the assistance of third parties. Countries like Spain, Greece, Ireland, Portugal and Cyprus are in bad debt (Haidar, 2012). Eurozone crises shifted the foreign investment in Asian countries. Debt crises situation is not favourable for investment and indirectly India is getting benefits of financial crises in Europe. A.T. Kearney (2012 published report on FDI confidence index 2012 given the 2nd rank to India as favourable investment country. There are some reasons to diversify this investment in India like government decision Eurozone debt crises and demand condition of India. Government also promoting investment policies in multi-brand retail and ready to provide infrastructure and government support to invest in India. These factors are favouring India as place for foreign direct investment (FDI) in retail (Pawar & Veer, 2013).

International Factor

In this research, we have used domestic factor in the earlier discussion for competitiveness study. After the extension to the Porter's diamond model some research has introduced the theory of double diamond while considering international factor. In this analysis two variables were used as for the understanding of international factors. Outbound FDI and Inbound FDI are two types of investment made by international firms. Outbound FDI indicates the external investments being made by domestic industry players, while inbound FDI shows the foreign interest in the domestic market. It is probably fair to assume that organized retail and its related industries represent a proportion of these inbound and outbound FDI.We must have to understand the impact of international factor on the competitive advantage. Initially, India's trade in the outbound FDI is not significant. Currently; research work can't assess the international factor for competitiveness of India.

Conclusion and Discussion

The purpose of this research was to analyse various factors of competitiveness of nation and to relate Porter's national diamond model

to the Indian retail industry. First, we used Porter's diamond model for analysis of competitive advantage of India for FDI in retail. By using this we were able to examine considerable factor of competitiveness of retail industry with respect to investment decision. All the six determinants of Porter's National diamond are showing favourable indicator for competitiveness of retail industry. A factor of competitiveness is support to the proposition of FDI in India. Similarly, Our study also supports to this research in the present analysis that India can get advantage of high market demand, largest market size, economy of scale, low penetration of retail and global sourcing for retail sector (Pawar & Veer, 2013).

In the further discussion, present research could not consider the extended factor of competitiveness like international factor. There is scope for the study of international factor and it's implication in the analysis of competitive advantage.

References

A.T. Kearney (2012). *Global Retail Expansion: Keep on moving.*

A.T. Kearney (2012). *FDI Confidence Index.*

Ali, A.J. (2008). National competitiveness in a changing world". *Competitiveness Review: An International Business Incorporated Journal of Global Competitiveness,* (3), 173.

Assocham (2012). www.assocham.org. Retrieved from http://www.assocham.org/search/search.php?query=size+of+retail+in+india&search=1

Burenstam Linder, S. (1961). *An Essay on Trade and Transformation.* University of Gävle (Doctoral dissertation).

CRISIL (2012). *Organised Retail: Decoding the India Retail Story,* Pune: Crisil Research.

Day, G.S. (1988). Assessing Advantage: A Framework for Diagnosing Cometitive Superiority. *Journal of Marketing,* 52, 1-20.

DIPP (2012, April). *Consolidated Fdi Policy*. Retrieved 2013, from http://dipp.nic.in : http://dipp.nic.in/English/Policies/FDI_Circular_01_2012.pdf

F.A.O. (2010). *Agriculture in India*. Retrieved from http://en.wikipedia.org: http://en.wikipedia.org/wiki/Agriculture_in_India - cite_ref-faostat.fao.org_2-1

GOI (2012). *The secratriat for Infrastructure*. Retrieved December 27, 2012,, from from http://infrastructure.gov.in/

Haidar, J. I. (2012). Sovereign Credit Risk in the Eurozone. *World Economic Journal,* 13(1), 123-136.

Hirschman, A.O. (1988). *The Strategy of Economic Development.* Westview Press.

IBEF (2012, Jan). *Retail*. Retrieved from http://www.ibef.org/artdispview.aspx?in=63&art_id=33068&cat_id=376&page=1

Karnani, A. (1984). Generic Competitive Strategies – An Analytical Approach. *Srategic Management Journal, 6*, 329-334.

MHA (2012). *India at A Glance: Census 2011.* Retrieved January 2012, from www.censusindia.gov.in http://censusindia.gov.in/2011-prov-results/indiaatglance.html

Mukharji, & Patel (2005). *FDI in Retail Sector.* New Delhi: Academic Foundation.

Pawar, P., & Veer, N. (2013). Advantage India: A Study of Competitive Position of Organized Retail Industry. *IOSR Journal of Business and Management,* 10(4), 57-62.

Porter, M. (1990). *The Competitive Advantage of Nation.* New York: The Free Press.

Porter, M. (1992). *Competitive Strategy.* New York: The Free Press.

Rediff.com. (2005, November 28). *India's strength: know ledge resources*. Retrieved from www.rediff.com: http:/www.rediff.com

South, S.E. (1980). Competitive Advantage: The Corner of Strategic Thinking, *The Journal of Business Strategy*, 15-25.

Tushar Poddar (2012, Febuarary). *A View from India*. Retrieved from www.Goldmansachet.com, http://www.goldmansachs.com/our-thinking/view-from/a-view-from-india/index.html

WEF (2012). *The Global Competitiveness Report 2011-2012.* Davos: World Economic Forum.

Wonglimpiyarat, J. (2010). Innovation index and the innovative capacity of nations. *Futures,* 42(3), pp. 247-253.

Yaohua, S. (2012, February). India in 2032 as the third largest economy. *Business Week*, pp. 112-113.

FDI as a Main Determinant of Economic Growth: A Panel Data Analysis

Sanjaya Kumar Lenka* and Pritee Sharma*

E-mail: sanjaya.lenka@iiti.ac.in, pritee.sharma@gmail.com

ABSTRACT

FDI is as an important vehicle for economic development as far as the developing nations are concerned. It has a key impact on country's trade balance, increasing labor standards and skills, transfer of technology and innovative ideas, skills and the general business climate. This study analyzes the inflows of FDI as key factor on economic growth with panel data for the time period, 1991-2010. Three different models like FEM, REM, and PCSE were used for the analysis. GDP growth as a dependent variable, regressed with 6 different independent variables such as real GDP per capita in the year 1971, Population, Secondary school attainment in the year1971, Savings, Inflows of FDI, Inflation. To check the properties of panel data FEM and REM test are applied. To address the problem of heteroscedasticity, Modified Wald test for group wise heteroscedasticity in fixed effect regression test is used; Wooldridge test for autocorrelation in panel is used to identify the auto-correlation. PCSE method in GLS estimation was applied to remove the presence of multicollinearity, autocorrelation and heteroscedasticity in panel data set. Empirical results by Generalized Least Square (GLS) estimation show that Population, education factor(Secondary school attainment) and

* School of Humanities and Social Sciences, Indian Institute of Technology Indore, Madhya Pradesh.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 84–97

savings are positively related with growth rate of the country, that means these are main components for economic development where as inflation and real GDP per capita are negatively related with the growth rate of the country. An inflow of FDI is a key factor for economic development. Here both inflows of FDI and GDP growth are positively related to each other, i.e. if FDI inflows coming to the country that leads to increase the economic growth and upper middle economies countries are highly correlated with GDP growth rate of the country than any other economies in the world.

Keywords: Foreign Direct Investment (FDI), Fixed Effect Model (FEM), Random Effect Model (REM), Panels Corrected Standard Errors (PCSE), Gross Domestic Product (GDP), Generalizes Least Square (GLS)

Introduction

During the past two decades, foreign direct investment (FDI) has become increasingly important in the developing world, with a growing number of developing countries succeeding in attracting substantial and rising amounts of inward FDI. Economic theory has identified a number of channels through which FDI inflows may be beneficial to the host economy. Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Yet, the empirical literature has lagged behind and has had more trouble identifying these advantages in practice. Most prominently, a large number of applied papers have looked at the FDI-GDP growth nexus, but their results have been far from conclusive. Notwithstanding this absence of any robust conclusions, and somewhat surprisingly, most countries continue to vigorously pursue policies aimed at encouraging more FDI inflows.

Foreign Direct Investment (FDI)

FDI is a type of investment that involves the injection of foreign funds in to an enterprise that operates in a different country of origin from the investor. It is as an important vehicle for economic development as far as

the developing nations are concerned. The important effect of FDI is its contribution to the growth of the economy. It has an important impact on country's trade balance, increasing labor standards and skills, transfer of technology and innovative ideas, skills and the general business climate. It also provides opportunity for technology transfer and up-gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitive, opening up export markets, access to international quality goods and services and augmenting employment opportunities. It plays an important role in the process of globalization during the past two decades. The rapid expansion in FDI by multinational enterprises (MNEs) since the mid-eighties may be attributed to significant changes in technologies, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India. Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, it also plays a complementary role in overall capital formation and in filling the gap between domestic savings and investment. At the macro-level, it is a non-debt-creating source of additional external finances. At the micro-level, FDI boost output, technology, skill levels, employment and linkages with other sectors and regions of the host economy.

Review of Literature

The review of literature is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. The present review of literature consists of both review of theories and empirical studies, as discussed in the following subsections.

Review of Theoretical Studies

David Ricardo (1817) argued that trade benefits to a country because if one could buy a good more cheaply from abroad, it meant that there was more profitable work to be done here. In economics, the theory of comparative cost advantage refers to the ability of a person or a country to produce a particular good or service at a lower opportunity cost. Even if one country is more efficient in the production of all goods than

other, both countries will still gain by trading with each other. Based on comparative advantage, classical economists emphasized the productivity aspect of the investment and ignored the income aspect, i.e. demand, while Keynes attached importance to income generation. Harrod-Dommar (1950) focuses on the dual role of investment. One hand, new investment generates income and effective demand. On the other, it increases productivity capacity of the economy by expanding capital stock. The theory says that the economic growth depends on the amounts of labor and capital. More physical capital generates economic growth. Net investment leads to more capital accumulation, which generates higher output and income. Then higher level of income allows higher level of saving. The neoclassical economist Solow (1956) highlights the savings or investment ratio as important determinant of short-run economic growth. Technological progress, though important in the long-run, is regarded as exogenous to the economic system. Endogenous growth theory Romer (1980) holds that investment in human capital; innovation and knowledge are significant contributors to the economic growth. The theory also focuses on positive externalities and spillover effects of a knowledge-based economy which will lead to economic development. The endogenous growth theory also holds that policy measures can have an impact on the long-run growth rate of an economy.

The Modern Theory of international trade has been advocated by Bertil Ohlin. Ohlin has drawn his ideas from Heckscher General Equilibrium Analysis. Hence, it is also known as Heckscher-Ohlin Theory. The Heckscher-Ohlin theorem (1967) states that countries which are rich in labor will export labor intensive goods and countries which are rich in capital will export capital intensive goods. The product life cycle Venon (1966) argued that, when a new product is introduced in developed country it requires highly skilled labor to produce. As the product become popular it can produce by developing countries, where MNEs will shift the production in order to take advantage of availability of cheap labor. In the bargain, the developed countries will get access to the technology to produce new goods.

Human capital is also the main source of growth in several endogenous growth models as well as one of the key extensions of the neoclassical growth model. Since the term 'human capital' refers principally to workers'

acquisition of skills and know-how through education and training, the majority of studies have measured the quality of human capital using proxies related to education (e.g. school-enrolment rates, tests of mathematics and scientific skills, etc.). A large number of studies have found evidence suggesting that educated population is the key determinant of economic growth. Innovation and research and development (R&D) activities can also play a major role in economic progress increasing productivity and growth. This is due to increasing use of technology that enables introduction of new and superior products and processes. This role has been stressed by various endogenous growth models and strong relation between innovation and economic growth.

FDI has recently played a crucial role of internationalizing economic activity and it is a primary source of technology transfer and economic growth. This major role is stressed in several models of endogenous growth theory. The empirical literature examining the impact of FDI on growth has provided more-or-less consistent findings affirming a significant positive link between the two (see Hermes and Lensink, 2000; Lensink and Morrissey, 2006). The role of FDI seems to be country specific, and can be positive, negative, or insignificant depending on the economic, institutional, and technological conditions in that particular economy (Li and Liu, 2004).

Empirical Review

A study by Grosse (1988), deals with the MNEs and economic growth in Venezuela. The country has a sufficiently large internal market to attract manufacturing firms. Data from micro- level analysis based on firm data finds that FDI appears to offer net benefits to the host country that either would not be available from other sources or would be more costly to obtain through alternative vehicles.

The study perform by Kevin H. Zhang (2006), identifies possible channels through which FDI may affect both positive and negatively in the Chinese economy over period 1992-2004 and finds that FDI seems to promote economic growth. The positive growth effect seems to rise over time and to be stronger in coastal than inland regions. The marginal product of foreign capital is larger than that of domestic capital. Tsai (1994), focuses some popular hypothesis of demand side determinants of FDI and the

study the influence of FDI on economic growth in the host countries. The study covers two time periods (1975-78 and 1983-86) finds that FDI is the main source of economic growth. In seventies, rate of export growth promotes economic growth but domestic saving is responsible for economic growth in eighties.

Balasubramanyam et al. (1996), defines the role FDI plays in the growth process in the context of developing countries characterized by different trade policy regimes. This paper uses cross section data relating to 46 developing countries and find that the growth enhancing effect of FDI is stronger in countries that pursue an export promotion policy than in those following an import substitution one. Nair-Reichert & Weinhold (2001), find that the effect of FDI on growth could display quite heterogeneous behavior in a panel of 24 developing countries over 25 years. The study to analyze the dynamic relationship between FDI and economic growth. There is a causal relationship between investment (both foreign and domestic) and economic growth in developing countries is highly heterogeneous, while domestic investment seems to be strongly correlated with economic growth.

Alfaro (2003) shows that FDI vary greatly across in the primary, manufacturing and services sectors. This study is an empirical analysis of 47 countries for the period of 1981-99 in 47 countries. This paper finds that FDI flows into the different sectors of the economy (namely primary, secondary and services) exert different effects on economic growth.FDI flows in to the primary sector tend to have negative effects on economic growth, whereas FDI inflows in the manufacturing sector a positive one and in the service sector the impact is ambiguous.

Makki & Somwaru (2004), study the role of FDI and trade in promoting economic growth across developing countries and the interaction among FDI, trade and economic growth. They examine data from 66 developing countries over the last three decades and find that FDI, trade, human capital and domestic investment are important sources of economic growth for the developing counties. FDI stimulates domestic investment and the contribution of FDI to economic growth is enhanced by its positive interaction with human capital, sound macroeconomic policies and institutional stability.

A study by Li & Liu (2004), is FDI influence on economic growth based on a cross country panel of data of 84 countries over the period 1970-99. Both single equation and simultaneous equation system techniques are applied to examine this relationship. They find that FDI not only directly promotes economic growth in both developed and developing countries by itself.

Chowdhury & Mavrotas (2006), Relates foreign direct investment and economic growth and discuss the causal relationship between FDI and economic growth. In this paper, they use the data from Chile, Malaysia and Thailand. The empirical finding based on the Toda-Yamamoto causality test suggests that it is GDP that causes FDI in Chile and not vice versa. But in case of Malaysia and Thailand, there is strong evidence of a bi-directional causality between GDP and FDI.

Archana et al. (2007), study the qualitative shift in the FDI inflows in India during the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI. The study reveals that India is not only cost-effective but also hot destination for R&D activities. The study also finds out that R&D as a significant determining factor for FDI inflows for most of the industries in India. The software industry is showing intensive R&D activity, which has to be channelized in the form of export promotion for penetration in the new markets. The study also reveals strong negative influence of corporate tax on FDI inflows.

The study by Banga (2006), discusses the export-diversifying impact of foreign direct investment in the India. The empirical results in the post-liberalization period show that FDI from the US has led to diversification of India's export, both directly and indirectly. However, Japanese FDI has no significant impact on India's exports.

Objective of the Study

The main objective of this paper is to analyze the major determinants of Economic growth in the world, such as real GDP per capita, Population, human capital (secondary school attainment), Savings, inflows of FDI, inflation and determine which is more significant than others.

Econometric Modeling and Data Sources

The study attempts to empirically investigate the determinant of economic growth. It includes FDI inflow as a percentage of GDP as the dependent variable to determine economic growth. Based on the review of both theoretical and empirical studies, the relationship between FDI and economic growth is correlated for population growth, initial per capita GDP, people's saving, inflation and initial human capital. Therefore the basic specification of the model as follows:

$$GDPGR_I = \beta_1 RGDP_{71} + \beta_2 POP_i + \beta_3 SSA_{71} + \beta_4 SAV_i + \beta_5 IFDI_i + \beta_6 INF_i + \varepsilon$$

where, GDPGR is the real GDP Growth of the country, $RGDP_{71}$ is the real GDP per capita in 1971, POP_i is the Population growth, SSA_{71} is the level of secondary school attainment in 1971, SAV is the saving as percentage of GDP, INF is the inflation of country and IFDI is the inflows of FDI as a percentage of GDP. The data set used covers 62 countries over the period 1991-2010. The different countries data are collected from the World Bank's World Development Indicators (WDI) database.

Empirical Result

Table 1: Descriptive Statistics (1991-2010)

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
GDPGR	1240	3.505	3.880	-50.248	35.224
$RGDP_{71}$	1240	6.349	1.220	4.054	8.587
POP	1240	1.467	1.105	-7.533	11.181
SSA_{71}	1240	42.398	29.206	1.107	101.859
SAV	1240	19.637	8.750	-24.004	75.340
IFDI	1240	2.974	4.743	-29.229	52.052
INF	1240	17.918	158.304	-23.479	4523.698
D1	1240	0.355	0.479	0	1
D2	1240	0.258	0.438	0	1
D3	1240	0.387	0.487	0	1

Source: Calculated by Author.

In this section, the estimation of empirical result for this paper is discussed. The descriptive statistics is the discipline of quantitatively

describing the main features of a data. Descriptive statistics are distinguished from inferential statistics (or inductive statistics), in that descriptive statistics aim to summarize a sample, rather than use the data to learn about the population that the sample of data is thought to represent. The above descriptive tables reveal that the average GDP growth rate varies in between –50.248 to 35.224 with standard deviation 3.880. The average inflows of FDI from the rest of world are 2.974. It varies from –29.229 to 52.052 in these twenty (1991-2010) years. The inflation is crucial condition of the economy, here the average inflation rate was 17.918 and it varies from –23.479 to 4523.698. The variation is more in inflation in case of other variable in this period. Education plays an important role in path of economic development. The above table shows that the average rate of educational attainment (secondary-level) is 42.398 and it varies from 1.107 to 101.859 in this period. The average savings of people is 19.697 and lies between –24.004 to 75.340, etc. in the next table represents the correlation between the variables.

Table 2: Correlation Table (1991-2010)

	GDPGR	RGDP71	POP	SSA71	SAV	IFDI	INF	D1	D2	D3
GDPGR	1									
RGDP71	–0.224	1								
POP	0.286	–0.489	1							
SSA71	–0.202	0.897	–0.529	1						
SAV	0.098	0.041	–0.139	0.116	1					
IFDI	0.075	0.050	–0.054	0.079	0.074	1				
INF	–0.022	–0.029	0.033	–0.055	–0.047	–0.035	1			
D1	–0.223	0.800	–0.491	0.839	0.057	0.088	–0.064	1		
D2	0.133	–0.070	0.096	–0.195	0.093	–0.003	0.066	–0.437	1	
D3	0.100	–0.723	0.396	–0.649	–0.140	–0.084	0.004	–0.589	–0.469	1

Source: Calculated by Author.

To know the effect of FDI on various economies (various regions) countries I introduced three Dummy variables. The total 62 cross

country, I divided in four categories by income group that are low income economies, the lower middle income economies, the upper middle income economies and high income economies. So defines this I use three dummy variables and the lower income economies are the benchmark of my study. The detail classifications of the four groups are in appendix of the study.

The new model using dummy variable as:

$$GDPGR_i = \beta_1 RGDP_{71} + \beta_2 POP_{i+} \beta_3 SSA_{71} + \beta_4 SAV_i + \beta_5 IFDI_i + \beta_6 INF_i + D_1 + D_2 + D_3 + \varepsilon$$

Here $D_1 = 1$ for the high income economies and taking 0 for otherwise, D_2 equal to 1 is the upper middle income economies and 0 for otherwise and D3 equal to 1 for the lower middle income economies and 0 for rest of the country. The results of dummy variable are in the Table 3 gives more clear information about the different group of countries.

Table 3 shows the results of the model with the dummy variables. I use three models in this analysis. First, I use fixed effect and then random effect models to know the random effect between the explanatory variable over the dependent variables that GDP growth rate in STATA-11 Software. After that to address the problem of heteroscedasticity, multicollinearity and auto correlation in the data, I use several methods like Wooldridge test for autocorrelation in panel data, modified Wald test for group wise heteroscedasticity in fixed effect regression model etc. After applied both FEM and REM models, I found that the heteroscedasticity available in the data. Then to avoid the entire problem in the panel data I applied PCSE model to get reliable result. But due to the high multicollinearity in the dummy variable D_3 which was set for the lower middle income economies is omitted from the final analysis. So according to PCSE model inflow of FDI, Savings and Population of the country are highly significant with GDP growth of the country in this time period (1991-2010). It indicate that Population, education factor(Secondary school attainment) and savings are positively related with growth rate of the country, that means these are main components for economic development where as inflation and real GDP per capita are negatively related with the growth rate of the

country. An inflow of FDI is a key factor for economic development. Here both inflows of FDI and GDP growth are positively related to each other, i.e. if FDI inflows coming to the country that leads to increase the economic growth. Here upper middle economies countries are highly correlated with GDP growth rate of the country than any other economies in the world.

Table 3: Estimation of Result Using Dummy Variable (1991-2010)

Variable	*I*	*II*	*III*
RGDP71	1.056 (0.91)	–.614** (–2.36)	–0.664** (–2.34)
POP	1.078*** (7.56)	0.948*** (8.00)	0.910*** (3.21)
SSA	NA	0.015 (1.33)	0.016* (1.67)
SAV	0.086*** (4.30)	0.055*** (4.05)	0.049*** (3.81)
IFDI	0.073*** (2.97)	0.068*** (3.03)	0.066*** (3.05)
INF	–0.001 (–1.24)	–0.001 (–1.11)	–0.001* (–1.80)
D1	NA	0.001 (0.02)	0.038 (0.07)
D2	NA	0.938** (2.50)	0.974*** (3.27)
Constant	–6.688 (–0.91)	3.874*** (2.86)	4.304** (2.44)
Model	FEM	REM	PCSE
Hausman	9.8		
BP	3.32		
Cross sec depend:	30.435		
Colinearity	0.634		
Heteroscedasticity	3659.66		
Observation	1240		

Source: Calculated by Author. Note: ***, ** and * are represents 1%, 5% and 10% significance level respectively; bracket value of first, second and third model indicates t-value, z-value and again z-value respectively.

Findings and Conclusion

The study gives an insight in between the FDI and economic growth. From various literatures I concludes that FDI is playing a significant role in the growth of the economy and suggest that FDI is an important source of capital, compliments domestic private investment associated with new job opportunities and enhancement of technology transfer and boosts overall economic growth in host countries.

The empirical investigation finds that impact of FDI inflows on GDP growth is highly significant. If the inflows of FDI to the country increase it will help to increase capital formation and will fill the gap between domestic savings and investments. If saving increases it will increase the investment as well as capital formation in the host country and the production will increase. It leads to increase the exports in the country for which the host country will gain more foreign currency from the rest of the world. Finally it will help to increase per capita income and standard of living.

References

Balasubramanyam, V.N., Salisu, M. & Sapsford, D. (1996). Foreign Direct Investment and Growth in EP and IS Countries. *The Economic Journal*. 106(434), 92-105.

Banga, R. (2004). Impact of Japanese and US FDI on Productivity Growth: A Firm Level Analysis. *Economic and Political Weekly*, 39(5), 453-460.

Banga, R. (2006). The Export-Diversifying Impact of Japanese and US Foreign Direct Investment in the Indian Manufacturing Sector. *Palgrave Macmillan Journals*, 37(4), 558-568.

Chodhury, A. & Mavrotas, G. (2006). FDI and Growth: What Causes What?, *United Nations University,* 9-19.

Choong, C.K. , Yusop, Z., & Soo, S.C. (2004). Foreign Direct Investment, Economic Growth, and Financial Sector Development: A Comparative Analysis. *ASEAN Economic Bulletin*, 21(3), 278-289.

Grosse, R. (1988). The Economic Impact of Foreign Direct Investment: A Case Study of Venezuela. *Management International Review*, 28(4), 63-78.

Hermes, N. & Lensink, R. (2000). Foreign Direct Investment, Financial Development and Economic Growth. *Journal of development studies*, 40(1), 142-163.

Lensink W. & Morrissey, O. (2006). Foreign Direct Investment: Flows, Volatility and the Impact on Growth. *Review of International Economics.* 14(3), 478-493.

Li, X. & Liu, X. (2004). Foreign Direct Investment and Economic Growth: An Increasingly Endogenous Relationship. *World Development*, 33(3), 393-407.

Makki, S.S. & Somwaru, A. (2004). Impact of Foreign Direct Investment and Trade on Economic Growth. *American Journal of Agricultural Economics*, 86(3), 795-801.

Ram, R & Zhang, K.H. (2002). Foreign Direct Investment and Economic Growth: Evidence from Cross- Country Data for the 1990s. *Chicago Journals*, 51(1), 205-215.

Reichert, U.N. & Weinhold, D. (2001). Causality tests for cross-country panels: A New Look at FDI and Economic Growth in Developing Countries. *Oxford Bulletin of economics and statistics*, 63(2), 153-171.

Solow R. (1956). A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics,* 70(1), 65-94.

Tsai, P.L. (1994). Determinants of Foreign Direct Investment and Its Impact on Economic Growth. *Journal of Economic Development*, 19(1), 137-163.

Appendix: Classification of Country Groups

Developed Economies

Austria, Bahamas, Canada, Denmark, Finland, France, Greece, Hungary, Iceland, Ireland, Italy, Japan, Malta, Netherland, New Zealand, Norway, Portugal, Spain, Sweden, United states, United Kingdom.

Upper Middle Economies

Botswana, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jordan, Malaysia, Panama, Peru, Suriname, Thailand, Turkey, Venezuela.

Lowe Middle Economies

Cote d'lvoire, Egypt, El Salvador, Fiji, Ghana, Honduras, India, Indonesia, Lesotho, Morocco, Nicaragua, Pakistan, Papua New Guinea, Paraguay, Philippines, Senegal, Sri lanka, Sudan, Swaziland, Syrian Arab Republic.

Low Income Economies

Benin, Kenya, Mali, Niger, Rwanda.

Random-effects GLS Regression

Variable	*Coef*	*Std. Err.*	*z*	*P>|z|*
RGDP71	0.614	.260	–2.36	0.018
POP	0.948	.118	8.00	0.000
SSA	0.015	.011	1.33	0.184
SAV	0.056	.013	4.05	0.000
IFDI	0.068	.023	3.03	0.002
INF	–0.001	.001	–1.11	0.266
Constant	3.874	1.353	2.86	0.004
D1	0.009	.607.374	0.02	0.987
D2	0.938	.375	2.50	0.012
D3	omitted	NA	NA	NA

Human Capital and FDI in Economic Growth: Study of Eighteen Indian States

Santanu Ray Chaudhuri[*1]

E-mail: santanu.ray@sse.ac.in

ABSTRACT

Stock and human capital augmentation are two fundamental sources of new knowledge creation which would propel the economic expansion by creating contented and congenial endeavour to accumulate and invest global finance in the home economy. The new scheme of idea is a paradigm shift from conventional physical capital-driven growth process to the efficiency units of labour as the 'engine of growth' through the eventual and decisive destiny of FDI. The present study has tried to test the above view in the major eighteen states in India with pooled, robust regression and panel framework.

Keywords: Human Capital, Skilled Labour, FDI, Growth, Major Indian States

JEL classification: F36, H75, O15, O4

[1] The author is greatly indebted to Sugata Marjit, RBI Chair Professor, CSISS, Kolkata, and Kaushik Guha Thakuratha, IIM, Kozhikode, for many useful suggestions and to the Indian Statistical Institute, Centre for Studies in Social Sciences, and NSSO, Kolkata, for giving opportunities to have valuable materials and dataset to get a hold on present perspective. The general disclaimer applies.

* Department of Economics, Symbiosis School of Economics, Symbiosis International University, Pune.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 98–110

Introduction

Stock and augmentation in human capital are two fundamental sources of new knowledge creation which would propel the economy towards high rate of expansion by creating contented and congenial endeavour to accumulate and invest global finance in the recipient economy. The new scheme of idea is a paradigm shift from the conventional initiative of physical capital-driven growth process. The basic argument is very straight forward in the sense that it is not the empirical count, rather the efficiency unit of factor is the 'engine of growth' because the economy with more skilled labour force is the eventual and decisive destiny of foreign finance in the form of foreign direct investment (FDI). Historical experiences show that large volume of FDI inflow can only be possible when the existing labour force would have expertise to adapt and use the updated technologies.

Foreign Direct Investment (FDI by the Multi National Corporations (MNCs) or by the non-resident entities (either citizen of host country residing abroad or foreign citizen) makes investment in the productive sector of the host or recipient country with the intention to earn private returns. There are two channels by which they can invest – either through indirect investment or through direct investment. Foreign Indirect investment includes portfolio investment, acquisition of stock of an enterprise, medium-term and long-term loans by financial institutions and intermediaries, and investment in new issues of national loans, bonds and debentures. Foreign Direct investment is mid-term or long-term equity investment that gives the investor managerial control and prospective returns.[2]

In the economic development perspective of post-WTO regime[3], FDI is a strategic constituent in maintaining the pace of growth and development of any economy, although its importance has been adequately spelt out by many economists and social planners since 1950s. The rapid growth

---

[2] See Griffiths and Hall, 1984. (A. Griffiths and S. Hall, 1984, Applied Economics, Longman, London).

[3] After new world economic order of 1990s, the development process through the progressive global integration of trade and finance has been remarkable in the sense that world trade in real terms has grown by almost five-folds during 1980-2005, and trade share of the world GDP has increased from 36 percent to 55 percent in the same period.

of FDI inflows does not only serve the purpose to channeling capital resources to the recipient country, but it also supplements the technology up-gradation, infrastructure development, and most importantly, it enhances both procedural skills (scientific and/or technical) and managerial capabilities to a large extent.[4]

In this streak, Kuznets (1955) argued that the most important stock of an economically advanced country is not its physical capital but "the body of knowledge amassed from tested findings and discoveries of empirical science, and the capacity and training of its population to use this knowledge effectively." This is perhaps one of the major clues of developing poor economies with richer ones through the passage of human capital development. Schultz (1964) has also commented in similar track in that capital goods must not be supposed to include only material factors . . . . "Thus excluding the skills and other capabilities of man that are augmented by investment in human capital. The acquired abilities of a people that are useful in their economic endeavor are obviously produced means of production and in this respect form of capital, the supply of which can be augmented." Hence human capital development is an essential precondition for the expansion of any economy which, in turn, is essentially contingent upon the education parameters and skill generation to fulfill and apply the abilities, endowments and talents in productive activities and thus, in economic development.

The new growth theory by Romer (1986) model does not always fit well to encounter the crucial issue regarding the role of human capital on long-run growth in the perspective of endogenous technological progress because the non-decreasing returns to scale of capital cannot be captured in isolation and in an explicit manner as well with other economic factors. Again, in the formulation by Lucas (1988), growth of income depends on growth of human capital which is much in parity with the neo classical approach. Thus from the experimental point of view, the theoretical argument of endogeneity of human capital as the factor of economic expansion is a challenging issue to be captured with empirical viabilities.

---

[4] The total international financial assets have increased from 58 percent of global GDP in 1990 to 131 percent in 2004. See World Economic Outlook: Globalization and Inequality, IMF, October, 2007.

Keeping in consideration the above line of arguments, the most exigent part of recent development paradigm is the sceptical apprehension about the inflows of FDI and its role to enhance the quality of human capital and promote egalitarian expansion of the economy. The contentious views of some economists are that FDI inflow is likely to enhance inegalitarian allocation of income, although it helps to enhance overall economic growth. The crucial argument goes in the line that FDI inflow generally moves towards those locations in an economy where existing labour force would have proficiency and capability to acclimatize and able to use the updated technologies along with the locations of industrial agglomeration accompanied by enough entrepreneurial and managerial efficiency, thus denying the approach of 'balanced regional growth along with egalitarianism' which has been considered as the hallmark of economic philosophy for long. Birdsall (2007) argues that opportunities created by the process would not be equally distributed across economy which may weigh down the general welfare index.

The paper tries to capture the above issue in Indian case in an elaborated manner and has taken eighteen major states in consideration because other than major states the inflow of FDI is negligible compared to the total volume. The primary issue of the study is that if enhancement of human capital through education would be uneven among states and if it would result as the states of skilled and unskilled, then growth differential among states may possibly be evidenced with the discrepancy in the inflow of FDI. Economic reforms have generated an endeavour for higher mobility of commodities and factors within and between the states such that efficient allocation and access of both foreign capital and technology could be achieved by the states. But differential in the capabilities and uneven backups and imbalances in the human capital augmentation of the regional governments would heighten inequalities of FDI inflow within the sub national boundaries. Thus taking into considerations the above facets of analytical perspectives, the present study has tried to test how far the human capital augmenting variables are responsible to induce FDI and economic prospect by FDI.

The whole set up of the paper is as follows. Section two describes FDI scenario in India until recently and section three elaborates the initial conditions and growth perspectives of eighteen major states in India. This

analysis shows the relative positions of the states from the growth rate perspectives. Section four takes up the importance of human capital in capturing FDI inflow and section five deals with econometric framework and its economic interpretation. Section six ends up with concluding remarks.

FDI in India

Since independence, policies relating to FDI put on increased consideration to the social planners in respect of advanced technology and, with it, from the point of view of trade perspective to increase trade abroad with a view to mobilize foreign exchange reserve. Until 1991, India followed a restrictive[5] foreign investment policy, particularly in the private sector, although relaxation in the restriction started taking places since 1980s in the pre-SAP period. State patronized industrialization in the framework of highly centralized resource allocation and politically motivated idea of protectionism in the name of *self-reliance* allowed bureaucratic interference that eventually led to economic stagnation during seventies. The resultant overburden of central borrowing and profligacy of development expenditure resulted in severe budget deficit and consequent balance-of-payments crisis. The whole panorama of fiscal extravagance shoved the government into a serious peril that ultimately played a pivotal role to set off several round of reforms since 1991. And the domain of foreign investment in the form of FDI inflow was the main concern where several phases of reforms have taken place to fill up the gap of huge investable sum to boost up growth. In this line, between 1991 and 2005 old Acts have been repealed and new Acts have came in force like Competition Act, SEBI Act and FEMA in governing the new post-globalized trade regime. A series of trade activities have been placed in automatic roots, dividend-balancing condition was removed and introduction of the new differentiation in the forms of 'control' and 'ownership' has taken place. Other ways to boost the FDI inflows in the country the government of India has allowed also frequent equity

[5] Two Acts are fundamental in the restrictive trade regime, viz., MRTP Act (1969) and FERA (1973), which not only imposed barriers on the size of the operation of the foreign players in domestic economy, but put restrictions also on the pricing of the products as well as on the domestic private industries to grow and enhance operation abroad.

participation of foreign enterprises along with other incentives like tax concessions, simplification of licensing procedures and de-reserving some industries, etc. There has been a deliberate benchmark policy[6] taken by the government of India since 1991 against those of the hastily growing south-east Asian economies including China to draw a larger allocation of the global FDI inflows. Over the last two decades, foreign investment inflow has been allowed in almost all the sectors of the economy including in retail recently.[7]

The following figure portraying the FDI inflow in India as a percentage of GDP and as a percentage of gross fixed investment has supported the effects of post reforms regime in that there are sharp upward tilts of both, although fluctuating, since 2002 to 2010.

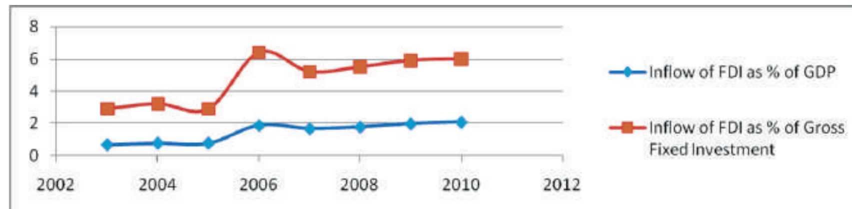


Figure 1: FDI Scenario in India
Source: Economist Intelligence Unit (EIU):

In terms of actual amount, there has been a spectacular rise of FDI inflow in the post-SAP period, particularly since 2000-01. The top countries who held responsible for almost 80 percent of FDI inflows in India in current years are Mauritius, Singapore, USA, UK, Netherlands, Japan,

---

6 In 1996, the automatic approval route for FDI was expanded from 35 to 111 industries under four distinct categories (Part A – up to 50%, Part B – up to 51%, Part C – up to 74%, and Part D – up to 100%) limited the scope of foreign companies starting new joint ventures, using the same technology as an existing ventures. A Foreign Investment Promotion Board (FIPB) was also constituted to consider cases under the government route. In the year 2000, except for some items, all the remaining activities were placed under the automatic route. Caps were gradually raised in a number of sectors/activities and the NBFC Sector was placed on the automatic route. The insurance and defence sectors were opened up to a cap of 26%, for telecom services was increased from 49% to 74%. FDI was allowed up to 51% in single brand retail.

7 The Government of India has released a comprehensive FDI policy document effective from April 1, 2010. Furthermore, the government has also allowed the Foreign Investment Promotion Board (FIPB), under the Ministry of Commerce and Industry to clear FDI proposals of up to US$ 258.3 million.

Cyprus, Germany, France and UAE. Mauritius is the top one as it has been done by the holding companies in Mauritius set up by the US firms to take the advantage of the treaty between Mauritius and India relating to dividend tax. The following shows the increasing trend of FDI since India's independence. It is observed that the amount is meager until 1990s, but after that there has been a sudden spurt in increase in the amount. The dominating states which are attracting the most of the inflows are Maharashtra (35 percent, Particularly Mumbai, where service sector has attracted almost 38%), Delhi (20 percent including New Delhi region), followed by Karnataka (7 percent, particularly Bangalore), Gujarat (6 percent including Ahmadabad, where telecommunications has attracted 25% and Natural Gas and Power sector attracted almost 23%), Tamil Nadu (5 percent) and Andhra Pradesh (4 percent, including Hyderabad).

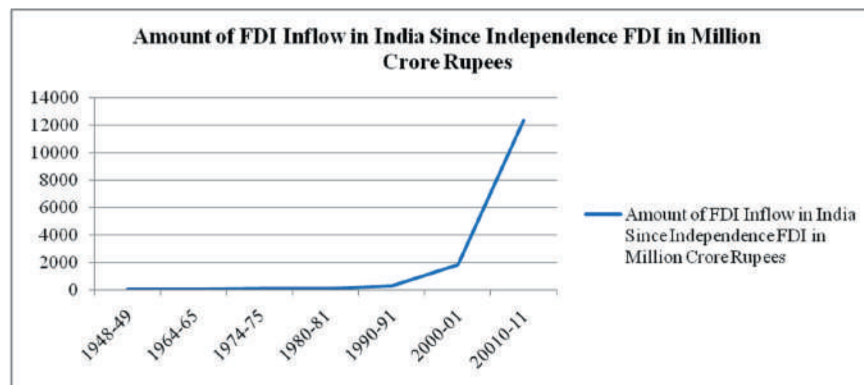


Figure 2: FDI Inflow in India since Independence
Source: UNCTAD, World Investment Report.

In the same streak, it is found that India Share in world FDI inflows has increased from 0.4 to 0.5 from 2001 to 2002, to 0.8 in 2005. The amount of inflow[8] has increased from US$ 79 million in 1980 to US$ 4585 million in 2003 to US$ 6598 million in 2005.

Initial Conditions and Growth Perspectives of Eighteen Major States in India

To test the tendency whether the growth rates of the states have been converging or not, given the initial conditions, the study takes the

[8] UNCTAD, World Investment Report.

comparable dataset of PCNSDP and the average growth rates of the eighteen major states over the periods 1070-71 and 2004-05. The horizontal axis of the figure represents the proportion between the base period (1970-71) PCNSDP (x_i) for each state and the average (x-bar) expressed in logarithmic terms. The vertical axis measures the deviations from the average growth rate of PCNSDP (g_i-g-bar). The number corresponding to each state is given below the Figure.

The figure confers some appealing patterns. First, it is seen that although Andhra, Karnataka, Tripura, HP and West Bengal have started from lower base period income, but have grown moderately faster, while the Maharashtra started with higher base, but did exactly opposite. Assam, Bihar, Orissa and UP started from lower base and grew slower. Second, there is no unambiguous negative relation between the variables, rather shows a rough upward drift, which prima facie substantiates the fact that states in India have not been converging in respect of PCNSDP, rather strong states like Delhi, Gujarat, MP, Punjab, Haryana, Tamil Nadu, Kerala have grown at a faster pace, starting from higher base.

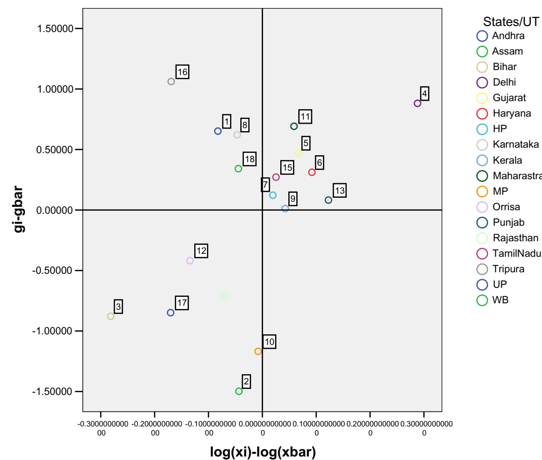


Figure 3: Initial Condition and Trend Line for Seventeen States in India during the Period between 1970-71 and 2004-05

[States in the figure: Andhra (1), Assam (2), Bihar (3), Delhi (4), Gujarat (5), Haryana (6), HP (7), Karnataka (8), Kerala (9), Maharashtra (10), MP (11), Orissa (12), Punjab (13), Rajasthan (14), Tamil Nadu (15), Tripura (16), UP (17), WB(18)]

Source: Calculations based on the dataset from CSO, Government of India.

Human Capital as a Determining Factor

In the context of economic prospect, human capital enhancement is vital to the scheme of growth. In the endogenous growth theory, augmentation of human capital is linked with the accumulation of knowledge that dissuaded diminishing returns and enhances income growth. Thus government policies to improve these factors would have impacts on the link by improving productivity growth following Romer (1990). Nelson and Phelps (1966) argued that human capital enhancement elevates the capacity of a nation to espouse and implement new knowledge and its propagation. They observed that the domestic stock of human capital is one of the major means to enhance the competence of any economy to take up and capacity to utilize implement new-fangled foreign productive technology. In their studies, Becker (1962, 1964) and Schultz (1961) passionately argued about the importance of human capital in economic advancement. In this perspective, the works of Uzawa (1965) and Rosen (1976) are very significant. Denison (1967) substantiated in favour of labour augmentation by providing education in the context of economic dynamics.

In their study Maksymenko and Rabbani (2011) have shown by employing multivariate time series model that significant positive impacts of human capital accumulation on growth has been found in both India and South Korea in the post reform periods. They constructed a modified production function which incorporates physical capital as well as composite reform index and human capital index to observe their impacts on economic growth. With the help of two indices, economic reform index and human capital index, they tried to observe the transitional dynamics of growth in total factor productivity. The most important outcome was that economic reforms and human capital accumulation produce a significant long-run positive effect on economic growth and productivity as well as technology transfers.

The evidences from the various studies have shown that economies with enriched human capital have attracted significant FDI inflow within host economy with the presumption of positive impact on growth and productivity afterward. Studies of Caves (1974), Globerman (1979), Blomstrom and Person (1983), Haddad and Harrison (1993) have argued

in the mentioned line through the channel of competition between domestic and foreign firms.

Econometric Framework and Economic Explanation

Now taking into considerations the issues, the present study has tried to test how far the human capital is responsible to induce FDI and FDI to induce economic prospect among major eighteen states in India in the recent perspectives of global integration in the form of international finance. The whole study tries to analyze the link through econometric analysis with both pooled and panel (fixed effect) frameworks. The methodology has not taken into consideration the threshold econometric analysis as, in this case, the panel regression would reveal more robust outcome as the states are having both political and economic homogeneities under the quasi-federal Union with broad similar contour of judiciary and economic institutions.

The present study uses the forms of the pooled, robust regression as well as the panel regression at the levels of controlling state and time effects:

Model 1: $fdi_{t,i} = \Omega_i + \alpha_1 LitRate_{t,i} + \theta Z_i + \psi \eta_i + e_{t,i}$

Model 2: $fdi_{t,i} = \Omega_i + \alpha_2 (Gr_PCNSDP_Indus)_{t,i} + \theta Z_i + \psi\eta_i + e_{t,i}$

Table 1: Human Capital and FDI

Independent Variables	*Dependent Variable: Foreign Direct Investment (FDI)*					
	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Model	Pooled, Robust	Pooled, Robust	Pooled, Robust	Panel, Fixed	Panel, Fixed	Panel, Fixed
State Effect	Yes	Yes	Yes	Yes	Yes	Yes
Time Effect	Yes	Yes	Yes	Yes	Yes	Yes
Gr_PCNSDP_ Indus		–0.003 (–0.04)	–0.04 (–0.45)		–6.95 (–0.90)	–11.15 (–1.44)
LitRate	0.262* (3.11)		0.275* (3.04)	39.66* (2.13)		47.92* (2.39)
F	9.67	1.03	4.63	4.56	0.81	3.28
R2	0.52	0.18	0.37	0.43	0.19	0.26
Number of Observations	126	126	126	126	126	126

Model 3: $fdi_{t,i} = \Omega_i + \alpha_1 LitRate_{t,i} + \alpha_2 (Gr_PCNSDP_Indus)_{t,i} + \theta Z_i + \psi \eta_i + e_{t,i}$

Here, 'i' refers to the state specific variables in consideration and Z is vector of dummies of different states to capture individual state specific heterogeneity and η is time-specific variables. Gr_PCNSDP_Indus,fdi and LitRate are respectively growth of per capita net state domestic product in industry origin (Planning Commission Dataset, Government of India), state wise foreign direct investment in million rupees (Lok Sabha Unstarred Question-Answer, Various Years) and literacy rate in India (Census Reports, Government of India, Various Years) and $e_{t,i}$ is the vector of random disturbance term. The framework considers pooled, robust models to control the heteroscedasticity in data-set and the panel regression consists of fixed effect model. The outcomes are evident in Table 1.

To observe the reverse causation, Gr_PCNSDP_Indus is taken as dependent variable and fdi and LitRate as regressors, and then the models are:

Model 1: $(Gr_PCNSDP_Indus)_{t,i} = \Omega_i + \alpha_2 fdi_{t,i} + \theta Z_i + \psi \eta_i + e_{t,i}$

Model 2: $(Gr_PCNSDP_Indus)_{t,i} = \Omega_i + \alpha_1 LitRate_{t,i} + \alpha_2 fdi_{t,i} + \theta Z_i + \psi \eta_i + e_{t,i}$

The outcomes are observed in the following Table 2:

Table 2: Growth of PCNSDP and FDI

Independent Variables	*Dependent Variable:Gr_PCNSDP_Indus*			
	Model 1	*Model 2*	*Model 3*	*Model 4*
Model	Pooled, Robust	Pooled, Robust	Panel, Fixed	Panel, Fixed
State Effect	Yes	Yes	Yes	Yes
Time Effect	Yes	Yes	Yes	Yes
fdi		–0.043 (–0.52)		–0.001 (–1.44)
LitRate	0.133* (2.01)	0.145** (1,73)	0.580* (2.31)	0.671* (2.57)
F	4.56	3.54	5.34	3.73
R2	0.28	0.19	0.51	0.17
Number of Observations	126	126	126	126

In the above analyses, irrespective of pooled or panel regressions, it is revealed clearly that FDI and PCNSDP growth in industry origin are highly negatively related and insignificant. But literacy rate has strong positive and significant relation with both FDI and growth rate of PCNSDP. Three points can be mentioned from above regression outcomes:

1. FDI does not enhance overall growth rate of PCNSDP in industry origin in all the major states as well as does not have significant impacts as it is only concentrated in some specified locations of some states like Maharashtra, Gujarat, etc. More importantly, the spread of the flow is also not similarly distributed within the state, rather it is concentrated in some specific geographical locations within any specific state having prior industrial and entrepreneurial backups and skilled labour supply (like Mumbai in Maharashtra, Ahmadabad in Gujarat, etc).
2. Human capital attracts FDI which means the distribution of the human capital is highly skewed among major states and this non-uniformity is a serious cause of uneven and skewed concentration of FDI in the major states in India. That is to say, disparity in the capabilities and imbalances in the human capital expansion of the regional governments still exists in the post liberalization that would heighten inequalities of FDI inflow within the sub national boundaries.
3. Lastly, the obvious outcome has been observed from the analysis in that human capital is always growth enhancing.

Concluding Remarks

The major research agenda that the paper tries to explore is that FDI inflow is highly contingent upon the egalitarian expansion of human capital in the form of education and skill generation. It is evident from the study that in the post-liberalization and globalization era also all the states (most strikingly major states!) in India are not able to construct proper human capital stock and the expected outcome has been seen in the form of differential capabilities among states to catch-up foreign finance to enhance growth. Recent higher growth regime is also limited

to the urban sector compared to the rural sector, and not only that it is highly location-concentrated within the state, perhaps the major cause of rising inter-personal disparities in the urban sector. Thus the reciprocating dynamics would create an inegalitarian pressure on the economy, widening the socio-economic disparity among regions and individuals further. Clearly therefore the high growth regime is economically, socially and politically unstable unless there is egalitarian enhancement of human capital can be and growth becomes more broad based and inclusive. Bigger size of cake is not the issue – the purpose should be justifiable share to all.

References

E. Borensztein, J. de Gregorio and J.W. Lee (1998, June). How Does Foreign Direct Investment Affect Economic Growth? *Journal of International Economics,* 45(1), 115-135.

F. Noorbaksh, A. Paloni and A. Youseef (2001, September). Human Capital and FDI Inflow to Developing Countries: New Empirical Evidence. *World Development,* 29(9), 1593-1610.

IMF (October, 2007). *World Economic Outlook: Globalization and Inequality.* Washington D.C.: International Monetary Fund.

J. Benhabib and M. Spiegel (1994). The Role of Human Capital in Economic Developmernt: Evidence from Aggregate Cross-Country Data. *Journal of Monetary Economics,* 34, 143-173.

M. Blomstrom and H. Persson. (1983). Foreign Investment and Spillover Efficiency in an Underdeveloped Economy: Evidence from Mexican Manufacturing Industry. *World Development,* 11(6), 493-501.

R.J. Barro and J. Lee (2000). International Data on Educational Attainment: Updates and Implications. *Centre for International Development, Working Paper 42*.

R. Lucas (1988). On the Mechanics of Economic Development. *Journal of Monetary Economics,* 22, 3-42.

UNCTAD (Various Issues, 2007-09). *World Investment Prospect Survey.* Geneva: UNCTAD.

FDI and Retail Regulation in India

Sukalpa Chakrabarti[*]**, Anusree Paul**[*] **and Ishita Ghosh**[*]

E-mail: sukalpa.chakrabarti@sse.ac.in, anusree.paul@sse.ac.in, ishita.ghosh@sse.ac.in

ABSTRACT

Foreign Direct Investment (FDI) undoubtedly is the most influential channel through which foreign capital comes into a country. In India FDI is being allowed in different sectors of the economy in different percentage/ratios through either the government or the automatic route. Till the early '90s the Government of India's (GOI) approach toward foreign capital has been reflective of a stiff and restrictive outlook. But all that changed with the Industrial policy of 1991 which marked the beginning of a paradigm shift in Indian economic planning, with the gradual opening up of the markets to foreign capital. India's retail sector has undergone a rapid transformation over the past decade. With the marked growth in India's per capita income and a rising middle class accompanied by a massive scale of urbanization, it is the retail sector that is pitted to be the real growth engine for the Indian economy. The GOI has recently in a slew of its reform statements, announced up to 51% FDI in multi brand retail and 100% in single-brand retail. The GOI mandate on FDI in retail also prescribes that that an organized retail outlet may be set up only in cities with a population of more than 10 lakh as per 2011 census. The most interesting part of the note released by GOI

* Symbiosis School of Economics (SSE), Symbiosis International University (SIU), Pune, Maharashtra State.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 111–121

with regards to enabling FDI in retail is that most of the policies mentioned are only enabling in nature. Hence, government in states and union territories are free to make their own policies. Obviously this has led to significant interest among policy analysts to develop the necessary regulatory frameworks to channelize the move. Now, as per the Indian Constitution, Retail features on the State list of powers.

Looking into the current scenario, domestic large organized retailing units have already entered our economic spaces which are having their own peculiarities and need to be regulated in a sui generis fashion. Two major apprehensions that loom largely at this juncture are that large retailers will leverage their strengths to first, bully suppliers, farmers and consumers through anticompetitive means, and secondly to push out smaller stores from the market merely by their marketing strategies, which may not be prima facie anticompetitive. Most countries who have opened up to large retailers have had to deal with both the issues – some successfully and some not so successfully. The paper will entail a detailed study of the regulatory mechanisms adopted by countries across the development spectrum such as Indonesia, Thailand, Malaysia, China, Japan, Spain, Russia, South Korea Brazil and Mexico to respond to the challenges of FDI in retail. By reviewing the cross country evidences the researchers seek to reveal the imminent requirement of framing a strong retail regulation in India. The paper provides a set of policy recommendations as inputs towards the proposed regulatory framework.

Keywords: Competitive Neutrality, Cross Country Analysis, FDI in Retail, Government of India Regulations, Policy Recommendation

Introduction

Till the early '90s the Government of India's (GoI) approach toward foreign capital has been reflective of a stiff and restrictive outlook. However, all that changed with the Industrial Policy of 1991 which marked the beginning of a paradigm shift in Indian economic planning. The gradual opening up of the markets to foreign capital has enabled India's retail sector to undergo a rapid transformation over the past decade. As a consequence of the marked growth in India's per capita income, a rising middle class and a massive scale of urbanization, it is the retail

sector that is pitched to be the real growth engine for the Indian economy. The Indian retail industry is expected to more than double to $1.3 trn by 2020. According to the Federation of Indian Chambers of Commerce and Industry (FICCI), if overseas investment is permitted in the sector, average annual growth in organized retail will increase by an estimated 25%. According to the FICCI president RV Kanoria, with the current market size estimated at $500 bn, this growth translates to an additional $800bn in the next eight years.

Objectives

The paper will entail a detailed study of the regulatory mechanisms adopted by nations to respond to the challenges of FDI in retail. Countries such as Indonesia, Thailand, Malaysia, China, Japan, Spain, Russia, South Korea, New South Wales, Brazil and Mexico have been considered. By reviewing the cross country evidences the researchers seek to reveal the imminent requirement of framing a strong retail regulation in India. Based on the researchers' observations, they have suggested a framework to enhance the performance of the sector.

Methodology

The researchers have used secondary sources and examined the Government of India's FDI policy in retail vis-à-vis the regulatory mechanisms adopted by countries as mentioned above. The secondary data has been collected from various published sources and websites across a time span of twelve years. Interpretation of the data is more on qualitative terms than on quantitative terms.

Government of India (GoI) Policy Reform on FDI in Retail

The GoI has recently (September 2012), in a slew of its reform statements, announced up to 51% FDI in multi brand retail and 100% in single-brand retail. The interesting part of the note released by GoI with regards to FDI in retail is that most of the policies mentioned are only enabling in nature. Hence, governments in states and union territories are free to make their own policies. Obviously this has led to significant interest among policy

analysts to develop the necessary regulatory frameworks to channelize the move. Given below is a snapshot of the changes brought forth[1]:

Table 1: Changes in Government Policy for FDI in Retail

Types of Retail	*Earlier Position on Allowance for FDI*	*Post Amendment*
Cash & Carry Trading	Upto 100%	Continues
Single Brand Retailing	Upto 100%	Continues with relaxed conditions
Multi brand Retailing	Not Allowed	Up to 51%FDI allowed subject to conditions

The Indian retail market is currently unorganized and highly fragmented, with estimated 13-15 mn outlets countrywide. According to research from CRISIL, the overall Indian retail sector is set to grow at a CAGR of 15 percent from 2011/2012 to 2016/2017, while organized retail will grow at a CAGR of 24 percent over the same period.[2]

Table 2: Share of Organized Retail in India[3]

Year	*2005*	*2009*	*2010*	*2013 (projected)*
Total Retail (in billion INR)	10000	18450	19500	24000
Organized Retail (in billion INR)	350	920	1350	2400
Share of organized Retail (%)	3.50%	5.00%	7.00%	10.00%

The above table portrays the steady growth of organized retail in India and this is expected to continue to increase in the years to come. It is this steady growth that can be attributed to the reforms brought forth by GoI in FDI policy in retail trade, with a view to increase the chances of achieving a double digit economic growth by attracting global retail majors.

While the policy posture clearly indicates a welcoming opportunity for global retailers to explore the vast potential of Indian markets, what remains to be seen is whether it will be easy for a global retailer to simply

---

1 Press Note 4 (2012 series) http://dipp.nic.in/English/acts_rules/Press_Notes/pn4_2012.pdf& Press Note 5 (2012 series)http://dipp.nic.in/English/acts_rules/Press_Notes/pn5_2012.pdf

2 CRISIL Opinion, Indian retail: Short-term blips but long term prospects bright, CRISIL Research, May 2012.

3 www.nielson.com (Sourced from: http://www.ipublishing.co.in/ajmrvol1no1/volthree/EIJMRS3008.pdf)

invest money and apply global best practices to initiate operations in India. Trade history is witness that whenever global retailers have ventured out of their base country, their prospects of success have diminished considerably. Wal-Mart in Germany and South Korea, Best Buy in China are glaring examples. It also remains to be seen, how sincere the authorities would be in monitoring the compliance aspect. The Bharti-Walmart controversy[4] is a case in point. Another big concern is about what the government plans to do to implement uniform regulations while allowing FDI in retail only in cities that had a population of over 10 lakhs (53 is the figure so far) and also provisioning that all states could make their choice. For a country like India, two sets of retail trade laws – for those who allow FDI and those who do not – is not feasible. On Jan 22, 2013, the Supreme Court has sought the Government's response on how it intends to safeguard the interest of small traders after opening up the retail sector to foreign direct investments (FDI).[5] Thus the way FDI in retail trade has been approached has already raised many brows over questions not just relating to circumvention of the extant laws, but also the objectives.

Challenges Facing the Current Policy

(a) Complex regulatory system with multiple acts (some even state wise).

(b) Rising real estate prices and land availability.

(c) The mandate on 30% local sourcing and 50% investment in back-end infrastructure requires a meticulous familiarity with vendor culture and practices.

(d) The mandate on 51% FDI limit (multi brand retail) calls for forging win-win partnerships with the indigenous organized retail players.

(e) Apprehension of unfair trade practices likely to be adopted by large foreign retailers like predatory pricing, creation of monopoly, promotion of cartels, etc.

(f) Growing pressure put by transnational corporations to bring in changes in the General Agreement on Trade in Services (GATS)

---

4 http://www.financialexpress.com/news/of-fdi-walmart-amp-controve-rsies-an-eventful-year-for-retail/1049567/2

5 http://www.financialexpress.com/news/retail-fdi-how-will-you-protect-small-traders-is-this-a-political-gimmick-supreme-court-asks-govt/1063049/0

to ensure that their entry in overseas retail trade is irreversible and ever-expanding.

Thus what is urgently required is preparation of a common legal and regulatory framework and enforcement mechanism to ensure fair play and overall growth of small and big retailers, through healthy competition.

Cross Country Analysis of FDI Policy Regime

A study of the emerging market economies reveal that it was since early '90s, that these nations began supporting the supermarket development as a part of their modernization policies with China opening its retail sector in 1992, Brazil, Mexico and Argentina in 1994 and Indonesia in 1998. Most have in general adopted policies that limit the growth of supermarkets to a certain extent to support the parallel growth of traditional retailers. For instance, Japan first allowed FDI in specific retail formats such as speciality stores and then gradually expanded it to hypermarkets and supermarkets; while Russia and South Korea, had taken the policy of tax remission for setting up supermarkets in municipalities. Some governments have even directly invested in modern retail with the twin objective of modernizing the retail chain as well as generating revenue for government. Many nations like Thailand had imposed strict zoning limits and hygiene regulations on wet-markets (fresh food informal market) to boost the modernization process. The Chinese Government by contrast had adopted a program of converting wet-markets to supermarkets – an attempt similar to transforming unskilled unorganized retail sector to skilful modernized organized retail sector. In contrast, the governments of Brazil and Mexico took the intermediate approach towards modernization without providing any protection or support to traditional (informal) retailers; while the Korean government pursued liberalised FDI policy regime in the aftermath of the Asian financial crisis in 1997-98 to fulfil the conditionality of the International Monetary Fund (IMF) in exchange for standby credit.

Post the 90s a distinct change is discernible in the retail policies of the same nations. Countries like Indonesia, Thailand and Malaysia, which up to the 1990s had a lenient policy towards the retail sector regulations, are found to increasingly impose restrictions on the proliferation of

multinational retailers, large-format shops and the domination of the market by a small number of retailers. In most cases these drives are being impelled by indigenous retailers. Malaysia, for instance, imposed a five-year renewable ban in November 2003 on the construction of large format retail stores in Klang Valley which includes densely populated urban areas like Kuala Lumpur. Thailand has also passed laws to restrict development of large format stores in inner city areas and is found to rely on competition laws to control them. The Thai competition commission has powers to search premises without a search warrant and to arrest violators. In Japan too, government regulations [such as the Amendment of City Planning law in 2006, Large-scale Retail Location Law (2000), City Centre Invigoration (Downtown Revitalization) Act 1998, etc.] have been drawn up to ensure smooth operation of traditional small stores parallel to the large retail outlets. There is also a law concerning the Adjustment of Retail Business Operations of Large-Scale Retail Stores, which regulates the operation of organised retail outlets in order to ensure that small and medium scale retailers operating within vicinity of large enterprises enjoy reasonable opportunities for business. The Indonesian experience shows that the growing number of modern retailers made suppliers' bargaining position and the traditional market increasingly weak. This prompted the government to enforce Presidential Regulation (No. 112 Year 2007) regarding management of traditional market, shopping centre, and modern shop, and Regulation of the Minister of Trade (Permendag, No. 53 Year 2008). Indonesia's Business Competition Supervisory Commission (KPPU) also restricted companies from expanding into areas where traditional suppliers operate. Individual cities like Jakarta too came up with similar restrictions.

China, in the first phase, allowed FDI in retailing with some restrictions like – only six major cities (viz., Beijing, Shanghai and Guangzhou, Tianjin, Dalian, Qingdao) and Special Economic Zones, foreign ownership restricted to 49% of joint ventures, limiting of foreign retailers that operate large retail to 50 units, etc. 2004 saw the government implementing a new retail law in which seek to strike a balance between incentives and regulations. The new law calls for abolition of geographical restriction, drastic reduction of minimum capital requirements, simplified approval process and non-mandatory joint ventures. Further, the foreign-invested enterprises (FIEs) enjoy tax incentives according to geographical location

which widened the choice of location and modus operandi for FIEs. The regulations issued require foreign retailers to pass annual inspections before they can open any new stores and the local government is empowered to check for compliance with the regulations according to Ministry of Commerce, and in conformity to urban development and urban commercial development plans. Also, the domestic companies get more benefits than foreign ones in zoning and urban development requirements.

In Spain, the retail trade sector is subject to a broad set of regional regulations encompassing various aspects of shop opening hours, seasonal sales, definitions of large retail outlets, regional licensing of hard discount stores, moratoria in retail trade licence issuance, specific taxes on large retail outlets, etc. Although retailing is regulated by the regional governments, the central government has the power to establish basic general economic rules.

In France and Vietnam there is an Economic Need Test which examines the requirement for a retail outlet. There are stringent labour-related regulations in some nations while in Austria, Czech Republic, France, Hungary, Italy and Korea there are nationality requirements.

For New South Wales, the Director-General has the power to exempt shops from trading restrictions subject to conditions or in the exceptional circumstances of the case in the public interest like the nature of the shop and the kinds of goods sold by the shop and/or the likely effect of the proposed exemption on the local economy, tourism and small businesses and other businesses in the area etc. They had enacted regulatory acts like Retail Trading Act 2008 and Retail Trading Regulation 2009, followed by The Amendment Bill 2012. Regarding enforcement, the act has given powers to inspectors to investigate a possible contravention of the regulations. The proceedings for an offence against this Act or the regulations may be instituted only by the Minister or by a person with the written consent of the Minister, or by an inspector, or by a person, or a person of a class, prescribed by the regulations. It prescribes a five yearly review of the Act to be undertaken by the Minister to determine whether the policy objectives of the Act remain valid and whether the terms of the Act remain appropriate for securing the stated objectives.

Thus the experiences of emerging markets suggest that the appropriate implementation of FDI in multi-brand retail with effective checks

designed to protect indigenous small and medium-size enterprises, is what is required to alleviate the sector in the case of India.

Proposed Regulatory Mechanism for Indian Multi-brand Retail

The current scenario indicates that large organized retailing has already entered into our domestic economic spaces which have their own peculiarities and need to be regulated in a contextual fashion. In India, all regulations regarding the retail sector is currently concentrated at the state level. Consequently it is being influenced by political parties of different ideologies. By varying across states the impact is also heterogeneous. Therefore the need of the hour is to consolidate the regulatory requirements and synchronize the laws in different states to do away with ambiguity of operations. Two major apprehensions that loom large at this juncture are that large retailers will leverage their strengths to (a) bully suppliers, farmers and consumers through anti-competitive means and (b) to push out smaller stores from the market merely by their marketing strategies.

Conclusion and Recommendations

The India government's policy on FDI in multi-brand retail trading has several riders built in as safeguards, and is perceived to be among the most stringent, globally. While the sector is experiencing over-regulation in some aspects, there remain some other vital areas in urgent need of regulation. Therefore, the researchers propose the incorporation of adequate checks and balances in the current FDI policy via regulatory mechanisms such as:

1. Formulation of a standard central law regarding enforcement of regulations relating to FDI in retail.
2. Setting up of a national level regulatory body overseeing the state regulatory bodies.
3. Formulation of uniform rules across states governing working hours and employment contracts.
4. Formulation of a "National Shopping Mall Regulation" Act to regulate the fiscal and social aspects of the entire retail sector.

5. Implementation of Goods and Services Tax (GST) and elimination of state border levies – creating "single window clearance" systems for collection of these taxes to facilitate efficient sourcing.
6. New controls for managing competition from new retail/store formats like e-retail, direct selling, and organized specialty retail, members-only sites for branded products/food items, etc.
7. Subsidies for the small and medium enterprises (SMEs) and traditional retail segments to help them meet the environmental and other health/hygiene standards.
8. Controls for gradual elimination of intermediaries and transparency of the supply chain in compliance with the government regulations.
9. Offer tax incentives according to the geographical location to widen the choice of location and modus operandi for foreign retail agencies.
10. Undertake a review of the current policy and regulations every three years

Given that the gains from allowing unrestrained FDI in the retail sector manifestly outweigh the disadvantages (as can be seen from the experiences in countries like Thailand and China), the government should continue with the policy of the gradually increasing the limit of equity participation over a period of time. A proper mix of regulations and incentives is what would boost India's image as a preferred investment destination in the retail sector.It is urged that a new regulatory framework be framed by GOI incorporating the proposed amendments. Implemented on a fast track, the revised policy would act as an enabler for a level playing field and competitive neutrality in the sector.

References

(2010). *Investing Across Borders – A Survey of 87 Economies.* World Bank. Retrieved January 15, 2013, from http://iab.worldbank.org/~/media/FPDKM/IAB/Documents/IAB-report.pdf

A.T. Kearney (2010). Global Management Consultants: Expanding Opportunities for Global Retailers, 'The 2010 A.T. Kearney Global Retail Development Index'. Retrieved January 11, 2013, from http://www.atkearney.com/documents/10192/302703/Global+Retail+Expansion+Keeps+On+Moving.pdf/4799f4e6-b20b-4605-9aa8-3ef451098f8a

Agarwal, D. (2001). *Foreign Direct Investment and Economic Development: A Comaparative Case Study of China,Mexico and India* (Vol. Socio Economic Development in the 21st Century). (R. Sen, Ed.) New Delhi: Deep & Deep.

Ahn, C.Y. (2008). *New Directions of Korea's Foreign Direct Investment Policy in the Multitrack FTA Era:Inducement and Aftercare Services* (March ed., Vol. Global Forum for International Investment). OECD.

Alfaro, L. (2003). *Foreign Direct Investment and Growth:Does the Sector Matter?* Retrieved January 20, 2013, from www.gripps.ac.jp/teacher/oono/hp/docu01/paper14.pdf

Antràs, P.D. (2007). Multinational Firms, FDI Flows and Imperfect Capital Markets. Retrieved January 09, 2013, from www.nber.org/papers/w12855.pdf

Blonigen, B.A. (2005). A Review of the Empirical Literature on FDI and Determinants. NBER Working Paper No.11299. Retrieved January 09, 2013, from http://darkwing.uoregon.edu/~bruceb/FDISurvey2.pdf

Guo, A.S. (2005). Determinants of FDI in China. *Journal of Global Business and Technology,* 1. Retrieved January 09, 2013, from www.gbata.com/docs/jgbat/v1n2/v1n2p3.pdf

Lynch, P. (2011). Retail Trading Amendment Regulation 2011 under the Retail Trading Act 2008. Retrieved January 11, 2013, from www.legislation.nsw.gov.au/sessionalview/sessional/sr/2011-95.pdf

Retail Trading Amendment Bill 2012 (n.d.). Retrieved January 11, 2013, from www.parliament.nsw.gov.au/prod/parlment/nswbills.nsf/131a07fa4b8a041cca256e610012de17/0605e12a12dedcbfca2579cf001385f8/$FILE/b2012-022-d16-House.pdf

Te Velde, D.W. (2002, August). Government Policies Towards Inward Foreign Direct Investment in Developing Countries: Implications for Human Capital Formation and Income Inequality. *OECD Development Centre Working Paper No. 193*. Retrieved January 12, 2013, from www.oecd.org/dev/1949219.pdf

Walsh, J.P. (2010). Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach. *IMF Working Paper No. 187*. Retrieved January 12, 2013, fromwww.imf.org/external/pubs/ft/wp/2010/wp10187.pdf

Customer Experience Mapping – The Evolving Trend in Retail Malls with Special Reference to Malls in Thane and Mulund Cities

Parvathi Venkatesh* and Vijayalakshmi Kannan*

ABSTRACT

Customer Experience Management is an emerging concept gaining widespread adoption by top corporates as it enables companies to serve customers efficiently, to reduce churn and thereby improving retention rate as well as competitive abilities. Several companies have begun to invest heavily on solutions that optimize interactions from the customer's perspective which will enhance customer loyalty. In the light of the above the current study is made to analyse the emerging trends in customer experience management and how customer experience management helps in creating a Customer Life Time Value. Seven approaches are taken as the base to map Customer Life Time Value. This paper concludes with a mapping index which may help to better understand the customers and the business. It will help to strengthen customer relationships and see how all the touch points affect the bottom line so that the retailers can ultimately improve it. It is envisaged that by using these techniques the existing and new retails malls will enhance Customer Life Time Value by improving Customer Experience Management.

Keywords: Customer Experience Management, Customer Experience Mapping, Customer Life Time Value, Touch Points, Retail Mall

* Mulund College of Commerce, Mulund, Maharashtra, Mumbai.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 122–136

Introduction

Consumers today are demanding more, and are shifting from desire of possession to a desire for experience. They are less receptive to information in which they do not have a keen interest, which requires the retail industry to know their consumers better than before. The lowest price is no longer attracting most customers like it did before. Today, product information is widely accessible and going shopping or dining is about having a pleasant experience. People shop where they feel comfortable, happy and satisfied with the service. The customers are ready to pay for the cozy environment, the soft sofa, the free magazine and for the meeting place with other people. Thus, Customer experience (CX) is the sum of all experiences a customer has with a company of goods and services, over the duration of their relationship which results in a rational and emotional response. It includes awareness, discovery, attraction, interaction, purchase, use, cultivation and advocacy. It can also be used to mean an individual experience over one transaction.

Customer Experience Management is a dedication to serving customer needs from their perspective; it is the broadest and deepest way of viewing customers and their role in the success of any organization and the related terms like *Customer Care, Customer Relationship Management and Customer Experience* are its components. The user-experienced service performance (USP) concept provides a service-and technology-generic approach to service quality measurement. Accurate insight into customer service experience has never been more essential for operators competing in a market increasingly driven by end-user expectations. For all service packages, it is necessary to align user experience with user expectations. Under-delivery – with users receiving a level of service below expectations – is obviously undesirable for providers seeking to maintain revenues and reduce churn. But over-delivery can also be damaging. Having certain users enjoying superior service levels compared with others on the same service network that are paying the same price can be problematic in terms of both costs and overall market credibility. These four factors – revenues, churn, costs and trust – are the principal Service Assurance business drivers. All organizations can reach higher potential by carefully managing the above dimensions of customer knowledge, customer well-being, and customer profitability.

Customer experience management (CEM) is thus defined as a strategic process employed by a business to manage their customers' entire experience through feedback, analysis and customer participation in the corporate culture in order to improve overall performance. Nonetheless it is quite possible to single out some universal interpretation of the notion of Customer Experience Management. For instance, the definition given by B. Schmitt may be treated as a universal one. So, according to him Customer Experience Management is "the process of strategically managing a customer's entire experience with a product or a company" (Schmitt 2003, p. 17).

Scope and Objectives of the Study

CEM is still a nebulous and misunderstood concept – it is normally understood as a synonym to customer relationship management but it is not just real-time CRM not a subset but arguably larger in scope than CRM. CEM is all about building an emotionally weighted relationship with each customer and is as much about managing services, and the infrastructure they run on, as it is about managing CRM-related customer touch points. From a technical perspective, CEM is about collecting the complete set of near real-time event data that has an impact on the customer experience; correlating and analyzing this data, including matching it with historical data about individual customers, such as their historical experience of the company, their predicted lifetime value and their known needs and desires; and using this combined intelligence to take appropriate management actions. Practically everyone knows that a better customer experience makes customers happier, profits higher, and brands more distinctive. Customer experience design has become an important focus in sales, guest check-in, call centers, retailing, patient admissions, theatre design, mobile services, web sites, ticketing, teller services, and even employee on-boarding. As experience designers skilled in all aspects of this discipline, one can move the company from simply talking about customer experience to making it an important part of its strategy and operations. This will give a competitive advantage. With this background, this research paper studies Customer Experience in eight large retail malls in the cities of Thane and Mulund and Bhandup areas of Mumbai suburban area. The broad objectives of the research paper can be enlisted as below:

1. To study the customer experience elements in and around Thane & Mulund Malls.
2. To analyse how the Customer value proposition added with excellent customer service delivery leads to customer experience which in turns creates Customer Lifetime value.
3. To identify which factors are helping in co creating a ultimate experience in the retail malls by mapping the Customer Experience.
4. To create an experience map that will emphasize to strengthen the stronger elements and to reduce the gap in the weaker elements of the customer satisfaction, delight and Loyalty factors.

Research Problem

A Customer Experience map visually identifies and organizes every encounter a customer has (or could have) with the retail center and the brands they promoted. These interactions are commonly referred to as “touch points.” Creating a map is one of the best methods for understanding how customers interact with the company and uncovers opportunities for where and how Retailer can improve a customer’s experience. An Experience map provides a framework that can set a path to increase customer satisfaction, loyalty, retention and ultimately greater profits. The map summarizes customer feedback for each touch point and calls out which departments are involved in any flawed processes and successes. An attempt is made in this paper to recognize the growth of Customer Experience Management and to show how a customer’s experience varies depending on where they “touch” the business. The best kind of map provides these things for all product lines or lines of business.

In a nutshell, the study proposes to compute and compare Customer Lifetime value using a composite index of seven concepts. Specifically the following Research Problem Statement is analyzed: *‘Customer Experience Study gives a route map to retail Malls to detect Customer Life time value.’*

Review of Literature

Prof. Ranjay Gulati of Harvard Business School describes “Focusing your business simply on giving the customer what he wants can be dangerous.

An outside-in mindset allows firms to identify needs far more sharply as they are continuously exploring unstated customer needs and how to address them" (Gulati, 2004–2005).

Don Peppers and Martha Rogers clarify "In the new business era managing individual customer relationship means organisations will use the knowledge gained from these relationships to improve the quality of overall customer experience. What is the day-in, day-out 'customer experience' your company is delivering?" (Don Peppers, 2004).

A study conducted by Strativity Group, 2009 of over 860 corporate executives revealed that companies that have increased their investment in customer experience management over the past three years report higher customer referral rates and customer satisfaction.

Chordiant Software Company's research done in 2008 also supports the same fact. The research surveyed 450 large organisations for the customer experience management performance of large organisations across Europe to create a maturity model and the results showed that over 3/4 of the organisations surveyed achieved level 3 (of 5) or less for CEM performance (5 being best possible result). The results also showed that performance in four key business areas (market share, retention, profitability, and customer satisfaction) was directly related to CEM performance.

Peppers and Rogers explains the customer experience has emerged as the single most important aspect in achieving success for companies across all industries.

Jeanne Rae says that companies are realizing that "building great consumer experiences is a complex enterprise, involving strategy, integration of technology, orchestrating business models, brand management and CEO commitment."

According to Bernd Schmitt, "the term 'Customer Experience Management' represents the discipline, methodology and/or process used to comprehensively manage a customer's cross-channel exposure, interaction and transaction with a company, product, brand or service."

Maritz defines "Customer Experience Management" (CEM) as creating greater value for customers by better understanding and responding to both the overt and subtle drivers within the customer life cycle. CEM's

ultimate goal should be a long-term business relationship between the company and the customer, wherein customers' needs and preferences are responded to in an increasingly targeted and relevant fashion. Executed effectively, the return of such a strategy should be increased customer retention, share of wallet, and brand equity. One can identify very easily on the emergence of new marketing Channels, and the increasing connection between marketing systems to enhance the Customer Experience through personalization and optimization.

An analysis of various literatures available in the context reveals that Customer Experience Management executed at micro level does pay well for the augmentation of the business.

Research Design

Creating a customer experience that really initiates customer loyalty and advocacy requires thought, effort and a systematic process. A careful design results in new forms of collaboration between various departments of an organization – marketing, HR and operations – and creates the means to harness the power of the people to turn them as Brand Ambassadors. The continuous journey of Customer Experience Management accelerates the seamless integration of high tech and high touch, the powerful combination of technology and the human interface. But most of all, it requires executives to understand what it means to manage the customer experience and then to use a systematic process for doing so in their organizations. It is important to understand that customer experience is fundamentally different from customer service.

The research design of this paper is an experimental study on the basis of primary data collected from various malls in and around Thane &Mulund Cities. Retail malls in Thane to Bhandup stretch has a number of competitors more than a dozen or so within a radius of 30 kilometers. Competition has grown much fierce over the years as it is much easier for customers for comparison shop. In total 160 samples have been selected from eight retail malls and questionnaire method is used for collecting data from primary sources. From each mall a random sampling of 20 customers has been chosen and information was gathered from them. The age group is between 16 to 60 and both male and female population. The

study is rooted from seven different approaches of Customer Experience Mapping namely Access, Architecture, Assortment, Assistance, Alignment, Augmentation and Association value and customers' viewpoints are obtained on each of these variables to have a better understanding of the core theme. The seven approaches are the components to capture the experience map by finding answer to different questions to record the customers' feelings. Though number of questions on each approach varied, equal weightage of 10 points has been assigned to each approach to arrive at Customer Life time Value Index.

Creating Customer Life Time Value

It is well realized now that an old customer retained is worth more than a new customer won. Customer lifetime value (CLV) is referred to as the gold standard of customer loyalty and profitability. Customers with higher lifetime value, in general, buy more often, spend more and have fewer returns. When that high lifetime value is combined with an authentic relationships, those customers also improve the satisfaction of your sales staff, and refer prospects that are more like them. So businesses that have a higher percentage of their customer base with high value and relationships have more stable growing revenue and a happy staff.

Data Analysis of Seven Dimensions of CLVI

The 7 A's approach is an effective tool to understand the Customer Experience in an improved way. The analysis of primary data collected from eight different retail malls in the cities of Thane, and the Mumbai suburban areas od Mulund & Bhandup reveals the following results :

Dimension 1: (Ac) – Access: Accessibility to any retail store is of paramount importance. The location of the store plays a significant role in attracting the sizeable and desirable footfalls. Views of customers have been obtained in this approach by 7 questions relating to location, approach & the supporting infrastructure, safety and security of parking facility etc Customers at Neptune mall at Bhandup showed strong reaction related to proximity of the mall and the least response is derived from those at R mall Thane.

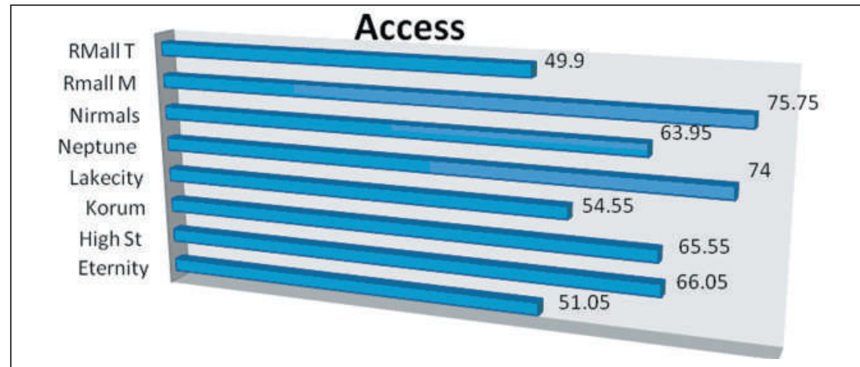


Figure 1: Dimension 1 of Customer Experience Mapping

Dimension 2: (Ar) – Architecture: The Look and feel of the store is another significant point. It includes every aspect of store layout and design – ambience, the aesthetics, amenities etc., If the shopping area is not invigorating the shopping experience would be minimal. In this approach viewpoints relating to ergonomics, interiors & the other aesthetics, aroma experience, hygienic factors and general upkeep were analysed and R mall in Mulund and Neptune were most preferred whereas Eternity and Lake city at Thane were least preferred.

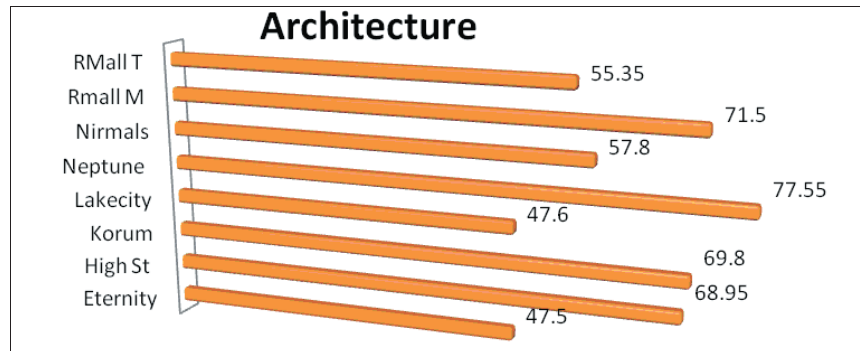


Figure 2: Dimension 2 of Customer Experience Mapping

Dimension 3 (As) – Assortment: The customer comes to any retail outlet, after all, to satisfy their needs and thus either by products or by services. All the product related issues like Product variety, quality, pricing, width and depth etc are to be well taken care of. As these factors constitute the major buying decision factor. The value for money is what the store should offer to every customer observations on product price, display,

variety at different price points, quality, category etc were obtained and Rmall Mulund & Neptune Bhandup topped the list & Eternity Thane got the least score.

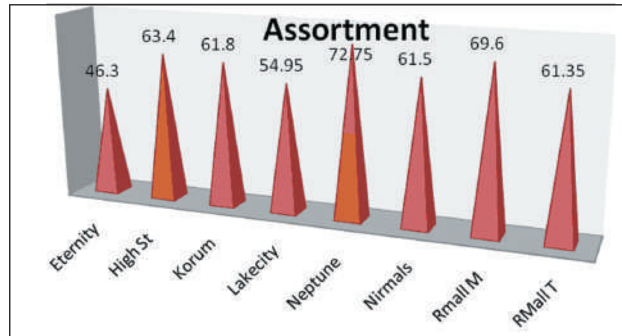


Figure 3: Dimension 3 of Customer Experience Mapping

Dimension 4: (Ass) – Assistance: The sales assistance plays a major role in increasing the shopping experience. They are an all important touch points for customer experience. They can elevate an ordinary and routine shopping to a memorable one with their proactive, pleasant and perseverant attitude and demeanor. No retail outlet can ask for more than helpful and hilarious workforce at every level. Sensoral/cognitive triggers were read through queries regarding supporting staff varied queries ranging from physical appearance to communication skills, product knowledge, courteous approach, number of personnel, etiquette etc were asked and the consumer response in all 8 malls were below average with inter mall differences as revealed in the figure below:

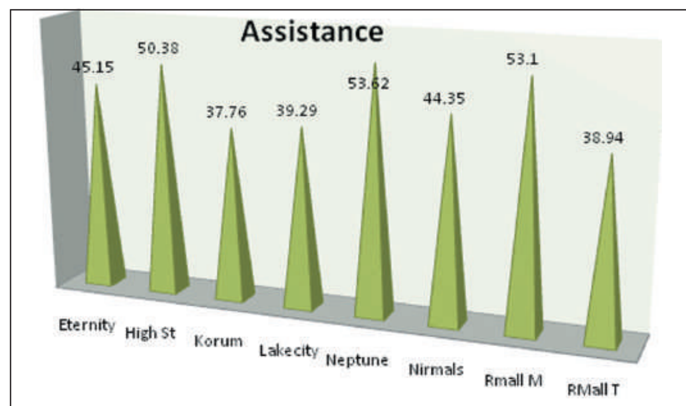


Figure 4: Dimension 4 of Customer Experience Mapping

Dimension 5: (Al) – Alignment: It's not just enough to have enthusiastic sales assistance. It's equally, if not more important to have alignment in all the touch points of the customer experience. The alignment encompasses strategic fit between store design, visual merchandise, sales personnel assistance, facilities etc. Even if there is one weak link in the Customer Experience value chain, it would not augur well for the retail outlet. The upkeep, coordination between the staff, alignment of brand image, brand appeal etc formulated the question bnk of this dimension and here too Neptune & Rmall, Mulund had a cutting edge.

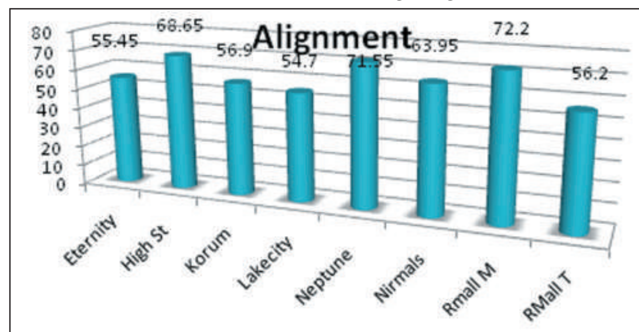


Figure 5: Dimension 5 of Customer Experience Mapping

Dimension 6 : (Ag) – Augmentation: The relationship with the customer should not end with the immediate transaction. It should go beyond the transaction in terms of well planned and brilliantly executed customer relationship initiatives. Augmentation usually endeavors going beyond to give the customers a sense of belonging. Customer relationship Management of the store had been given priority in this dimension and the responses are revealed in the following chart.

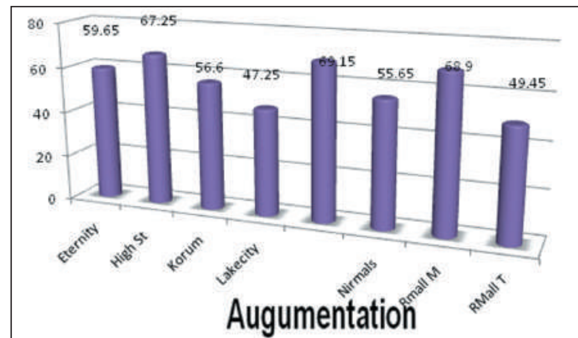


Figure 6: Dimension 6 of Customer Experience Mapping

Dimension 7: (Av) Association Value: One of the often neglected yet very important elements is creating the association value. It comes from customer taking pride in being the part of the community. The communities are being created by the retail outlets. Many global brands have physical as well as online communities to give an exclusive platform. Exclusivity is the key in creating the association value. The customer should be made proud of being associated with the Retail outlet, after all. The overall shopping experience with the mall and the incentives to share the experience is depicted in this dimension.

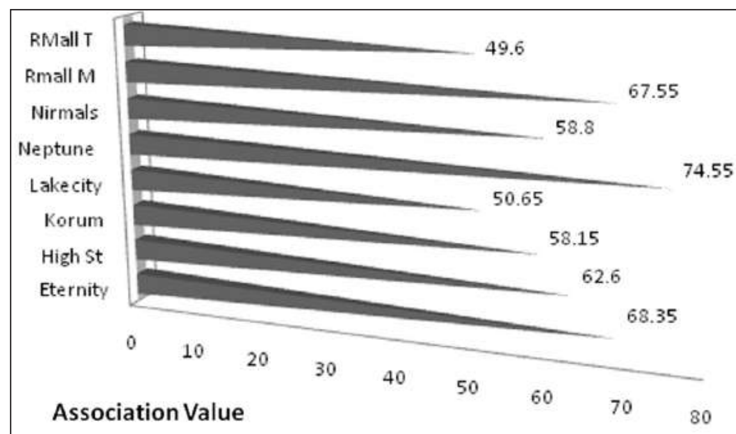
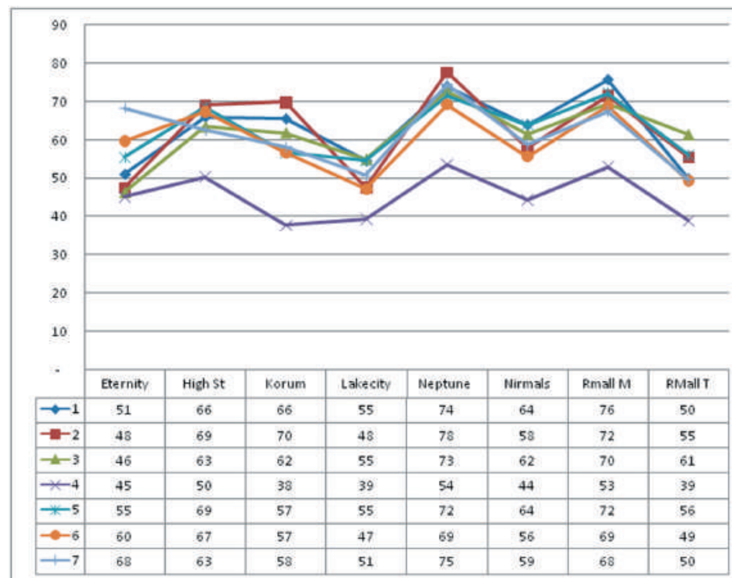


Figure 7: Dimension 7 of Customer Experience Mapping

Mapping the Customer Experience

Creating a map is one of the best methods for understanding how customers interact with the firm and uncovers opportunities for where and how the company can improve a customer's experience. Customer experience map is a graphical representation of the service journey of a customer. It shows their perspective from the beginning, middle and end as they engage a service to achieve their goal, showing the range of tangible and quantitative interactions, triggers and touch points, as well as the intangible and qualitative motivations, frustrations and meanings. A Customer Experience map visually identifies and organizes every encounter a customer has (or could have) with the company and brand. These interactions are commonly referred to as "touch points".

In going through this mapping and customer journey discovery process, it is sure to derive priceless insights into customers, processes and overall operations. Customer touch points are places and situations where the retailers have an opportunity to interact and communicate with customers. All customer touch point interactions build the collection of experience a customer has about the brand and the firm. Well designed and planned touch points should deliver joy, help and a good experience to the consumer at the same time as it gives the retailer a better knowledge of consumers' interests and behaviors. Customers are more interested in solutions that are customized, complete, and delivered quickly and simply than they are in products that target their emotions. The difference today is that empowered consumers and buyers are demanding more. Not just in lower price, but in better service as well. According to a recent American Express study, Customers are willing to spend 9% more with companies that provide excellent service. The same study showed that 91% of customers believe that customer service is important, but only 24% actually feel they get the service they deserve. It's no wonder that brands



	Eternity	High St	Korum	Lakecity	Neptune	Nirmals	Rmall M	RMall T
1	51	66	66	55	74	64	76	50
2	48	69	70	48	78	58	72	55
3	46	63	62	55	73	62	70	61
4	45	50	38	39	54	44	53	39
5	55	69	57	55	72	64	72	56
6	60	67	57	47	69	56	69	49
7	68	63	58	51	75	59	68	50

Figure 8: Customer Experience Mapping

1 – Access. 2 – Architecture, 3 – Assortment, 4 – Assistance, 5 – Alignment, 6 – Augmentation. 7 – Association Value

with better customer experiences are outperforming their competitors. Touch points can be mapped in a variety of ways, and no two will look exactly the same. The best kind of map is one that keeps things simple and streamlined.

Using the described seven dimension of Customer experience survey, mapping of all eight malls studied has been graphically arrived at.

The map clearly depicts that Architecture has a pronounced impact on customer response followed by Augmentation and not much importance has been assigned by customers of all these malls regarding assistance. This is despite the fact that more minute details were included in the questionnaire with 14 different questions on dimension 4 Assistance to lead the consumers to reveal their preference in a strong manner.

Customer Lifetime Value Index (CLVI) has been constructed by considering (i) a large number of indicators representing various concern areas and (ii) a set of objective methods for combining the experience indicators as a composite index. To be more precise, CLVI is a composite of all seven variables viz..Access, Architecture, Assortment, Assistance, Alignment, Augmentation and Association value. These seven variables are measured using different indicators. CLVI is an equi-weighted average of all above seven indices Averaging these seven sub indices, we get the CLVI.

$$CLVI = (1/7)\ (Ac + Ar + As + Ass + Al + Ag + Asv)$$

Table 1: Customer Lifetime Value Index for Malls in Mulund, Bhandup & Thane City

S. No.	*Mall*	*CLVI*
1.	Eternity, Thane	5.34
2.	High Street, Mulund	6.39
3.	Korum, Thane	5.81
4.	Lakecity, Thane	4.99
5.	Neptune , Bhandup	7.05
6.	Nirmal Life Style Mulund	5.80
7.	RMall Mulund	6.84
8.	RMall Thane	5.15

Mapping of the Customer Lifetime Value is precisely feasible and a comparative study of all 8 malls mentioned in the table is easily arrived at by the composite index arrived at with the help of '7 A' approach. The index of a mall combined with the visual mapping as depicted in the figures will make the retail mall owners get a feel of their comparative advantage and the area to throw upon. For eg, Lake city Thane by looking at its low index may analyse the mapping by identifying the glaring area where their score had been a matter of concern. In all, the Index will help the malls in the following ways:

For Designing

- Makes visible the end-to-end experience from the customers' view point, showing the significant interactions, pathways or expectations we need to understand.
- Explicitly calls out experience factors that were implicitly known, or not known at all.
- Enables conversation based on evidence of what customers actually think, do and use (not assumption).

For Implementing

- Provides the human context for the service blueprint and the connection to the business change that is proposed and enables the team to really understand what it is to be in the customers' shoes.
- Ensures the customers' voice is easily represented & referenced during development & building.

As a Communication Tool

- Provides a focus and reference for conversations, work and shopping with many people.
- Captures at visual level complex information and saves time in getting people on the same page because it doesn't require lengthy text to explain it.

Conclusion

Customer Lifetime Value (CLV) is a critical concept for virtually every organization that claims (or aspires) to be customer centric. At a granular level, it helps companies to decide which tactics should be used for which customer and at the macro level, it is the key ingredient in calculating customer equity – which, in turn, drives overall corporate valuation. There are seven dimensions of experience used for the map to capture one major element of CLV. These represent important reference points for features of the service design – e.g. how the service is found, who uses it, what they're looking for, what information they use, who and what is of most help etc. By capturing these experiential aspects we ensure the customers' voice is represented as the service is designed and implemented.

References

Gulati, Ranjay, and James Oldroyd. "The Quest for Customer Focus." *Harvard Business Review* 83, no. 4 (April 2005): 2004–2005.

"Tuning In to the Voice of Your Customer," Harvard Management Update, Vol. 10, No. 10, October 2005.

Adrian Palmer (2010) "Customer experience management: A critical review of an emerging idea", *Journal of Services Marketing*, Vol. 24 Iss: 3, pp. 196–208.

Schmitt, B. (2001). Customer Experience Management, New York: The Free Press

Chad R. Allred, R. Bruce Money, (2010) "The service hand-off: Effects of multivendor service performance on customer satisfaction – An experimental study", *Journal of Services Marketing*, Vol. 24 Iss: 3, pp. 184-195.

Customer Care ... CRM ... Customer Experience – What's the Difference? by Lynn Hunsaker on October 13, 2010.

Rahman, Zillur, *Journal of Database Marketing & Customer Strategy Management*; Apr 2006, Vol. 13 Issue 3, p203, April 2006.

http://www.aegisblogs.com/is-the-indian-consumer-willing-to-pay-more-for-better-customer-experiences/ accessed on 04th Oct 2012.

Indian middle class: The emerging affluent, LiveMint.com Posted: Thu, Mar 15 2012.

Emerging Markets Get a Wake-up Call, AsitRanjan Mishra, Mint, 17-07-2012, As presented at the Loyalty Summit, February 2012, Mumbai.

RightNow Customer Experience Impact Report 2011

Anil Nair, "The Weapon Called CX", The Deccan Chronicle, Bengaluru, on June 18, 2012 in the Technomics section, p. 13.

Impact of FDI on Indian Retail Sector: Challenges and Opportunities

Richa Arora, Supriya Mathew and Anupama Suresh

E-mail: dydirector@scmsug.ac.in; supriya.mathew@scmsug.ac.in; director@scmsug.ac.in

ABSTRACT

Even though organized retail sector in India is at the infant stage but is being seen as a potential gold mine for retailing by investors all over the world. With a robust economy experiencing un-relented growth, the country is enticing global companies looking to expand overseas. As per the latest research by AT Kearney[1], a global management consulting firm, India is rated as the most attractive destination globally and has become the potential target for the foreign investors. According to the BMI India Retail report from private consulting company recommends that there is the rapid growth in the Indian retail market despite of many restrictions on FDI. In their third-quarter report published in year 2010, forecasts that the total retail sales will grow from US$ 353 billion in 2010 to US$ 543.2 billion by 2014.[2]

Despite these encouraging signs, India's retail markets remain largely off-limits to large international retailers like Carrefour. Resistance to liberalizing FDI in this sector raises concerns about employment losses, unfair competition resulting in large-scale exit of incumbent

[1] Global Retail Development Index, AT Kearney, 2009. Available for download at http://www.atkearney.com/index.php/Publications/global-retail-development-index.html.

[2] BMI India Retail Report, Business Monitor International, August 2010. Available for download at http://store.businessmonitor.com/retail/india_retail_report.

* Symbiosis Centre for Management Studies, Pune, Maharashtra.

ISSN 2348–0661 Print
© 2014 Symbiosis Centre for Management Studies, Pune
Annual Research Journal of Symbiosis Centre for Management Studies, Pune
Vol. 1, Januray 2013 – January 2014, pp. 137–151

domestic and the death knell on the small traders who will be in no position to compete with the big players. Thus it will kill the small entrepreneur initiative; as these traders do not have the capital and expertise to compete with big retail chains.

The phenomenal growth and change in the India Retail Sector over the years has resulted in many issues and challenges for the retail industry, the very recent being the Foreign Direct Investment policy in India. This would change the face of the retail sector. In this context, the present paper attempts to analyze the various factors concerning the influx of foreign direct investment its repercussions as well as the opportunities for FDI in the Indian retail industry. Though based on secondary data this paper tries to analyse the impact of FDI on Retail sector in India in future particularly with respect to challenges for local and small retailers.

Keywords: Foreign Direct Investment, Liberalization, Retail, India, Multi Brand and Single Brand Retailing

Introduction

The retail industry in India is expected to grow at a rate of 14% by 2013. The first step towards allowing Foreign Direct Investment in Retail was taken in the year 2006. Since then 54 FDI approvals have been granted by the government and the country has received a cash inflow to the tune of about Rs 901.64 crore.

The scenario at present is:

- 100% FDI is allowed in wholesale cash and carry trade
- 51% FDI in Single Brand Retail
- No FDI in Multi Brand Retail

Some of the concerns against allowing of foreign direct investment in multi brand retail were that FDI would lead to unfair competition and result in large-scale exit of domestic retailers, especially, the small family managed outlets.

Another concern was that organized retail is still under-developed and in its nascent stage, and there for it is important that the domestic retail

sector is allowed to grow and consolidate first, and then this sector should be opened to foreign investors.

As per the report prepared by FICCI and ICICI Property Services in Feb 2005, FDI can be a powerful catalyst to spur competition in the retail industry. It can bring about the improvement in various areas such as:

- Supply Chain Improvement
- Investment in Technology,
- Manpower and Skill development
- Tourism Development
- Up gradation in Agriculture
- Efficient Small and Medium Scale Industries
- Growth in market size
- Greater Productivity
- Benefits to government through greater GDP
- Tax income and employment generation

The arrival of foreign companies into the Indian retail sector is a sensitive issue, as small shopkeepers fear being driven out of business by multinationals. Industry bodies want the retail sales sector to be liberalized gradually but calls for the market to be opened up to foreign competition have increased in recent months, notably during visits by Western leaders. Both US President Barack Obama and his French counterpart Nicolas Sarkozy urged India to remove restrictions on foreign trade and investment.

Statement of the Problem and Need for Study

In developing countries like India, the unorganized retailers play a dominant role by offering products or services to the consumers at the convenient locations, i.e. Kirana Stores or Apana Bazar with effective selling and buyer's retention strategies. But due to the recent changes in the field of retailing and with the entry of big domestic corporations as well as multinational and foreign companies into the field of various retailing ventures, the existing unorganized retailers have also been forced to change their existing business structure. The perception of consumers, industrialists, academicians and policy makers in respect of the

organized and unorganized retailers keep on changing. The organized and unorganized retailers are also in a dilemma about the perception of the different segments as mentioned above. Because of these kinds of issues emerging in today's retail markets, this topic has become very important, which needs an in-depth probing.

Review of Literature

Indian traditional retailers have a number of inherent strengths which helped them not merely survive the competition from organized retail but flourish. These include proximity to consumers, consumer goodwill, credit sales and amenability to bargaining, sale of loose items, convenient timings and home delivery. The Indian Council for Research on International Economic Relations (ICRIER) study (M. Joseph and N. Soundararajan, 2009) has shown that hardly 1.7 percent of small shops have closed down due to competition from organized retail. They have competed successfully against organized retail through adoption of better business practices and technology. FDI has positive and proven spillover effects in automobiles, telecom and consumer electronics on the economy as its ownership advantages get disseminated to locally owned enterprises, enhancing their productivity.

The domestically driven organized retail expansion in India is facing difficulties. The food inflation in the country has stayed high for some time now. The gap between the farm level prices and consumer prices is very high in India which has not come down with the expansion of organized retail. Why? While the number of domestic restrictions on the operation of organized retail in India is partly responsible for this, the ban on foreign entry into multi-brand retailing is also partly responsible. India permitted foreign direct investment in cash-and-carry wholesale trade up to 100 percent through the automatic route and in single-brand retail up to 51 percent in 2006. The former brought in US$ 1.8 billion during April 2000 to March 2010 and the latter just US$ 195 million during April 2006 to March 2010.The reason why India has not allowed FDI in multi-brand retail is the fear that it will harm the traditional small retailers.

Organized retail, one of the most notable emerging sectors of the Indian economy, continues to attract significant investments and interest from leading national and international retail players. It has also generated

considerable opposition from small traders and shopkeepers who are worried about the impact of large-scale organized retail on their businesses. As a result, the government has been forced to carefully examine the long-term implications of organized retail in India

According to the authors, the main reason why the third wave countries which include China, India and Russia lagged behind was the severe restrictions on foreign direct investment (FDI) in retailing in these countries. The demand side features of these countries, such as income, size of the middle class, urbanization, and the share of women in workforce, etc., have been similar to countries in the second wave. In China and Russia these restrictions were progressively relaxed in the 1990s and in India only partially in the 2000s. In January 2006, India allowed foreign companies to own up to 51 percent in single-brand retail joint ventures (JVs), but multiple brand foreign firms are still barred in retail although they can set up wholesale operations.

India stands out as an example for the late coming of modern organized retail in emerging markets and also for the kind of restrictions placed on foreign investments in retail. The arrival of modern retail in developing countries occurred in three successive waves (Reardon and Hopkins, 2006; Reardon and Berdegue, 2007). The first wave took place in the early to mid-1990s in South America, East Asia outside China, North-Central Europe and South Africa. The second wave happened during the mid to late 1990s in Mexico, Central America, Southeast Asian countries, Southern-Central Europe. The third wave began in the late 1990s and early 2000s in parts of Africa, some countries in Central and South America, Southeast Asia, China, India, and Russia.

A study conducted by Mukherjee and Patel (2005) found that foreign retailers are working with small manufacturers for in-house labels and are providing them technologies like packaging technologies and bar coding. Sourcing from India has increased with the advent of foreign retailers and they also bring in an efficient supply-chain management system. Joint ventures with foreign retailers are helping the Indian industry to get access to finance and global best practices. Besides, retailing being a non-tradable service there is no possibility of improved efficiency through import competition and foreign investment is the way forward.

Research Objectives

Having presented the immense potential and current status of the entry of the global giants to Indian retail industry, this paper continues to flesh out the Indian retail story with the objective of highlighting some of the major concerns that organized retailers will have to consider as they venture into the Indian market.

The objective of the paper has four dimensions:

1. The myths and realities of global giant's entry to India, with special reference to Wal-Mart and Carrefour
2. Overview the two faces of retail sector – Challenges and key Success factors.
3. Impact of FDI on Indian Retailers, Consumers and Farmers.
4. Recommendations and policy suggestions before allowing FDI in Multi brand Retailing.

Global Giants in India: Myths and Realities with Special Reference to Wal-Mart and Carrefour

Table 1: Myths and Realities about the Global Giants arrival to India

	Myths	*Realities*
Price	Prices of different items are less here.	The rates at which the vendors sell are less as those in the corporate retail shops.
Middlemen	Corporate retail is throwing away Middlemen.	They are becoming the new mega middlemen and creating monopolies by becoming the wholesaler, distributor and the retailer.
Employment	They are creating employment. The Employment potential projected is 2 million jobs.	They are robbing livelihoods many more times than the number of jobs they are going to create. For creating 2 million jobs they going to destruct 40 million livelihoods in retail sector.
Better deal or best deal	Corporate retail sell fresh.	The hawker sells much fresher than any of these shops. Long distance supply chain and refrigeration means stale fruits and vegetables.

	Myths	*Realities*
Local economy promotion	Corporate retail is promoting local economy.	They have destructed local economy wherever they have gone, and are doing the same in India. Attacks on the reliance stores in Ranchi and Indore are preemptive action by people dependent on local economy.
Efficient supply chain management	Corporate entry will make the supply chain more efficient. They are more scientific than the existing system.	The supply chain gets more centralized, and the average distance traveled by food increases manifolds. In scientific, social and ecological terms this is inefficient compared to our hawkers.
Push or pull strategy	There is huge consumer demand for corporate retail.	The corporations are pushing the agenda, never have people in India demanded for corporation led retail.
Grow without kill	There is room for all, as Indian economy is growing at an enormous pace.	The corporate retail chains cannot prosper without killing the small businesses. The experience of west shows us the truth.
Money saving or money wasting shopping	Corporation led shops sell cheap and consumers save money shopping there.	Corporations are propagating the habit of wasteful consumerism among the Indian consumers.

Overview of the Two Faces of Retail Sector

The one side of the Retail mirror is challenges and the other side is Key success factors which boost up the Retail Sector.

Challenges faced by the Retail Sector: Overview of the Two Faces of Retail Sector

The one side of the Retail mirror is challenges and the other side is Key success factors which boost up the Retail Sector.

Challenges Faced by the Retail Sector

1. **Supply chain:** Finance Minister Pranab Mukherjee in his 2010-11 budget speech had emphasized on the reduction of wastages estimated at 40 percent of National Produce in storage as well as in the operations of the existing food supply chains in the country. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/ inventory

management.

Infrastructure has been developing at a rapid pace over the past decade but has still a significant ground to cover; the planned expenditure of US$ 1 trillion in the 12th five year plan will help bridging this gap.

2. **Location and rental:** Finding the right location with the right rental for stores has been a challenge for all retailers. Rent forms a large portion of the total expenditure (6 to 11 percent of the revenue) in retailer's income statement and can more often than not convert a profitable store into loss making. The challenge for a retailer would be to find the right location for their stores either in malls or as a standalone store to be able to generate enough footfalls.
3. **Channel conflicts:** The retailers need to maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographic spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt operating structures of distributors, who as an industry body in the past have opposed FMCG companies selling directly to retailers.
4. **Regulatory:** Currently, indirect taxation structure is complex in India with varying tax rates, multiplicity of taxes and multiple tax enforcement authorities. Goods and Service Tax likely to be implemented in 2011 will replace a host of levies like excise, sales tax, value-added tax, entertainment tax and luxury tax.. Opening a new store requires a lot of licenses, which have to be obtained from different government departments leading to considerable lead time in opening up of the stores. A push has been made by existing retailers to get the government to have a single window clearance for getting all the licenses at one place to speed up the process.
5. **Unique Indian customer:** The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis.
6. **Private labels:** Private labels enable retailers to offer products at a better price point attracting footfalls to the store. This, in turn, not only translates to better margins by cutting out middlemen but also