

Perceptions of Various Stakeholders on FDI in Indian Retail Sector in Hubli-Dharwad an Empirical Study

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Abstract

The emerging economies of BRICK countries have attracted world attention. Many Multinational Corporations are keenly following these economies to en-cash the opportunities. India with world's second largest population is a potential market for most of the fast moving consumer goods, durables etc... As a result many retail giants are lobbying for direct investment in the country. These giants argue that their entry would help all the section of the society. However the views of the established traditional players negate the above argument. The efforts of the present UPA Government to allow majority stake to foreign investors in the Indian retail sector are strongly opposed. At this juncture a study on Perception of various stakeholders on FDI in retail is appropriate. In a primary survey about 30 stakeholders' perceptions regarding aspects of FDI are measured and analyzed using one way ANOVA. The study found that the perceptions varied across age and income groups.

Keywords: Emerging Economies, Foreign Direct Investment, Retail Stake Holders

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1. INTRODUCTION

India is one of the youngest nations in the world with 450 million people below 21 years of age. This has witnessed a revolution in retailing due to some of the following factors. Change in Government's approach from socialism to market driven in 1990s, ensured stable economic growth at around 7% over the years. The entry of private Television Channels changed the lifestyle of millions. More expectations from life motivate people to move from their villages to bigger cities that cause urbanization. There has been an increase of 8% in urban population in India from 1975 to 2005¹. This gave opportunities to many migrants and today around twenty cities generate 30% of the income with less than 10% of Indian population. The household income of the urbanized families grew by 10% year on year from 2004 to 2008². No wonder if a teenager from urban India no more recognizes the Milkman, Fisher woman and Vegetable vendors as retailers but Big bazaar, Reliance, Vishal mega mart, Subhiksha etc. as one. The huge malls have replaced the popular practices of door to door sales of utensils, fabric, gift items in urban India. In last one decade it happened in India.

By 2016 more than 50% of the population will be middle class. As argued by the most of the eminent researcher, Mrs. Rama Bijapurkar, the Indian market is very much fragmented and the retail formats developed abroad cannot be used directly. Every retailer is trying hard to survive and get a piece of the future market. The major challenges faced by the retailers today include soaring realty prices, shortage of trained personnel, Government restriction on Foreign Direct Investment and opposition by local groups. The retailers have realized that they cannot operate with their present fixed costs and continue selling at discounts. Kishore Biyani feels that the rent paid should be around 5% to 15% of the revenue of the outlet.³ Most of the retail outlets across India are operating under losses. At this juncture the government is willing to allow 100% FDI in multi brand retailing.

The perceptions and opinions of the people about FDI are divided. Some believe allowing global scale retailers freely are beneficial to the nation and others argue in against. Some of the concerns raised against FDI in retail due to the fear of the loss of jobs as retail. Many families run small Kirana stores which will face onslaught and they lose jobs. The argument points that it would be difficult to find alternate jobs as manufacturing sector is not growing fast enough to generate more jobs. It is also believed that since organized retail is in its nascent stage. Opening the doors to foreign giants at this stage will do more harm to the domestic retail industry.

On the other hand it is observed that even though India is the second largest producer of fruits and vegetables (180 million MT), has the most limited cold storage supply chain. It causes heavy losses to farmers up to Rs. One trillion per annum⁴ and the supply chain is dominated by intermediaries. As a result farmers receive only 1/3rd of what consumers pay. Whereas farmers' share is about 2/3rd in countries where retail organized is dominant⁵. Also, the efficiency of the existing Public Distribution System is questioned as intended benefits do not reach the

¹ UN population Division

² NCAER/FCR

³ Kishore Biyani (2006), *It happened in India*, Rupa Publication

⁴ CRISIL2007

⁵ ICRIER Report on Impact of Organized Retailing on the Unorganized Sector, May 2008

beneficiaries while the burden of these subsidies is increasing. Many MSMEs are in bad health as they do not have their own brands to market. Therefore it is argued that FDI is good.

It is difficult to conclude, as the results of FDI in retail across the countries vary. FDI in China has given a good result. Whereas Thailand with maximum number of family run small shops had a bad experience. In Chile domestic retail chains have become prominent and in Indonesia both foreign and domestic chains share the market. Irrespective of the dominance of local or foreign chains the benefits of modern retail are felt.

2. REVIEW OF LITERATURE

Subhadip Mukherjee (2011), in his paper *An Econometric Analysis on Organized and Unorganized Retail* attempts to know which factors influence market shares using multiple regression analysis. He found that GDP, women's participation rate, foreign investment freedom and the urbanization rate of a country influence the relative share of the organized retail sector positively.

Piyushkumar Sinhala, Sanjay Kumar Kar (2007) in their article "An insight into the growth of new Retail Formats in India" discussed the developments and growth of new retail formats. They observed that much experimentation was going in the industry to identify the best retail format for India. They found that supermarkets and hypermarkets were popular.

Jonathan Reynolds et. al. (2007) in their article "Perspectives on retail format innovation relating theory and practice" gave an overview of retail innovation process and the contemporary understanding of the process. The study explored the long term retail format Lifecycle and compared with recent research that took place in the United Kingdom. The finding was drawn based both primary and secondary data. The primary data was collected by interviewing the retailers. The study concluded that there was no single solution to the problem, as, either experimental, incremental and even accidental processes played the role in innovation.

The research by **Sabastian Morris (2005)**, *Explaining Foreign Direct Investment in Gujarat* A study based on opinion surveys of Persons involved in the Foreign Direct Investment Process, points that infrastructure plays an important role along with other factors like the composition of industries present in the region. He concludes that a positive step of a Government can improve FDI potential.

The article written by **Kenneth C. Gehrt, Ruoh-Nan Yan (2004)** "Situational, consumer, and retailer factors affecting Internet, catalog, and store shopping" argued that the knowledge about consumer preferences and behavior had become obsolete due to the emergence of many new formats. The study considered the situational factors along with consumer characteristics and retailer attributes. The study concluded that the situational factors played a major role in selection of online and catalog retail formats.

Jozefina Simova, Colin M. Clarke-Hill, Terry Robinson (2003) in their article "A longitudinal study of changes in retail formats and merchandise assortment in clothing retailing in the Czech Republic" found that in smaller towns there was no major change in clothing retailing but there was a definite change in larger towns. The study was longitudinal in nature and was conducted between 1994-1999.

Outi Uusitalo (2001) in his article "Consumer perceptions of grocery retail formats and brands" discusses that there is a slow growth in retail sector and it was difficult for retailers to maintain their market shares. There was no heterogeneity in retail formats across the industry as many stores were owned by very few people. But, there a scope for differentiation based on culture. The study was conducted in Finland to examine how consumers perceived grocery retail formats. The primary data was collected to understand the consumer perspective. The study found that Consumers perceived meaningful differences in various store formats, but did not notice store brands separately.

The above reviews give different perspectives of the retail industry and explain how the dynamic retail sector is and India is at the crossroads. A study is undertaken to know how different stakeholders perceive about majority FDI in retail and allowing giants like Wal-Mart, Carrefour, Hold etc. to enter the domestic market.

3. OBJECTIVES OF THE STUDY

The study is undertaken to know whether the perceptions of respondents varied across stakeholders, age, & Income/Business turnover .The selected factors in the study include a variety of products and services, price, world class products, perception regarding competition, impact on small stores, creation of job opportunities, benefit to farmers and finally the efficiency of the supply chain. The following hypotheses are set for the study

1. There is no significance difference between stakeholders with respect to FDI in retail
2. There is no significance difference across the age groups with respect to FDI in retail
3. There is no significance difference with respect to FDI for different income groups.

4. METHODOLOGY

The study makes use of both primary and secondary data. The primary data are collected by interviewing various stakeholders like traditional players, small retailers, employees of organized retailers and the end consumers. After a pilot survey the questionnaire was finalized. For this study the competition means a long term healthy completion among the players it doesn't mean cannibalization or the establishment of monopolies. The classification of firms into high, medium and low is based on their turnover. The business with less than 50 Lac is taken as low income, 50-1cr. as medium and above 1cr. as High. Similarly, individuals with less than 1.9Lac income are considered as low, 1.9 to 2.9 Lac as medium over and above this is taken as higher income. The stakeholders are divided into three broad categories - Unorganized Small retailers, organized modern retailers & customers. The views of managers and employees of modern retailers are treated as views of modern retailers. Since, the interview was held with opinion leaders like secretary, chairman of Agricultural Produce Markets and managers of respective retail outlets. A convenience sample size of 30 is selected taking into consideration of time and geographical constraints. Further the data are analyzed using one way ANOVA to know whether the perceptions varied across the stakeholders, age groups and income groups.

5. FINDINGS AND ANALYSIS

The survey did not find any significant difference between various stakeholders with respect to availability of world class products, competition, the effect on small players and improvement in supply chain efficiency. All the stakeholders felt the same. Whereas, views of the respondents

varied significantly on various factor. The maximum difference was observed with respect to whether FDI is a good proposition and will benefit farmers. (Table No.1)

Table No1 ANOVA for Stakeholders

		Sum of Squares	df	Mean Square	F	Sig.
product variety last 3 yrs	Between Groups	8.964	3	2.988	4.389	.013
	Within Groups	17.702	26	.681		
	Total	26.667	29			
FDI is good proposition	Between Groups	32.364	3	10.788	10.199	.000
	Within Groups	27.502	26	1.058		
	Total	59.867	29			
Product varieties and services	Between Groups	13.955	3	4.652	6.362	.002
	Within Groups	19.011	26	.731		
	Total	32.967	29			
effect on price	Between Groups	15.264	3	5.088	5.147	.006
	Within Groups	25.702	26	.989		
	Total	40.967	29			
availability of world class product	Between Groups	4.692	3	1.564	2.498	.082
	Within Groups	16.275	26	.626		
	Total	20.967	29			
competition	Between Groups	8.930	3	2.977	2.274	.104
	Within Groups	34.036	26	1.309		
	Total	42.967	29			
effect on small players	Between Groups	4.421	3	1.474	1.163	.343
	Within Groups	32.945	26	1.267		
	Total	37.367	29			
job opportunity	Between Groups	16.083	3	5.361	5.986	.003
	Within Groups	23.284	26	.896		
	Total	39.367	29			
benefits farmers	Between Groups	28.789	3	9.596	11.335	.000
	Within Groups	22.011	26	.847		
	Total	50.800	29			
supply chain efficiency	Between Groups	6.885	3	2.295	2.899	.054
	Within Groups	20.582	26	.792		
	Total	27.467	29			

Source: Primary Data ,SPSS output.

There is a significant difference across age groups with respect to change in product variety in the last three years only (Table No.2).All other factors considered for the study is viewed same by all age groups.

Table No. 2 ANOVA for Age

		Sum of Squares	df	Mean Square	F	Sig.
product variety last 3 yrs	Between Groups	10.476	3	3.492	5.608	.004
	Within Groups	16.190	26	.623		
	Total	26.667	29			
FDI is good proposition	Between Groups	8.771	3	2.924	1.488	.241
	Within Groups	51.095	26	1.965		
	Total	59.867	29			
Product varieties and services	Between Groups	5.550	3	1.850	1.754	.181
	Within Groups	27.417	26	1.054		
	Total	32.967	29			
effect on price	Between Groups	6.836	3	2.279	1.736	.184
	Within Groups	34.131	26	1.313		
	Total	40.967	29			
availability of world class product	Between Groups	3.836	3	1.279	1.941	.148
	Within Groups	17.131	26	.659		
	Total	20.967	29			
competition	Between Groups	4.705	3	1.568	1.066	.381
	Within Groups	38.262	26	1.472		
	Total	42.967	29			
effect on small players	Between Groups	8.188	3	2.729	2.432	.088
	Within Groups	29.179	26	1.122		
	Total	37.367	29			
job opportunity	Between Groups	5.521	3	1.840	1.414	.261
	Within Groups	33.845	26	1.302		
	Total	39.367	29			
benefits farmers	Between Groups	12.502	3	4.167	2.829	.058
	Within Groups	38.298	26	1.473		
	Total	50.800	29			
supply chain efficiency	Between Groups	5.121	3	1.707	1.986	.141
	Within Groups	22.345	26	.859		
	Total	27.467	29			

Source: Primary Data, SPSS output.

Across the income groups there is a change in perception with respect to only two variables - change in product variety in last three years and benefit to farmers (Table No.3).

Table No. 3 ANOVA for Income

		Sum of Squares	df	Mean Square	F	Sig.
product variety last 3 yrs	Between Groups	8.648	2	4.324	6.479	.005
	Within Groups	18.019	27	.667		
	Total	26.667	29			
FDI is good proposition	Between Groups	2.262	2	.131	.059	.942
	Within Groups	59.604	27	2.208		
	Total	59.867	29			
Product varieties and services	Between Groups	.467	2	.233	.194	.825
	Within Groups	32.500	27	1.204		
	Total	32.967	29			
effect on price	Between Groups	2.389	2	1.195	.836	.444
	Within Groups	38.578	27	1.429		
	Total	40.967	29			
availability of world class product	Between Groups	2.293	2	1.146	1.658	.209
	Within Groups	18.674	27	.692		
	Total	20.967	29			
competition	Between Groups	.595	2	.298	.190	.828
	Within Groups	42.372	27	1.569		
	Total	42.967	29			
effect on small players	Between Groups	2.714	2	1.357	1.057	.361
	Within Groups	34.652	27	1.283		
	Total	37.367	29			
job opportunity	Between Groups	.214	2	.107	.074	.929
	Within Groups	39.152	27	1.450		
	Total	39.367	29			
benefits farmers	Between Groups	10.781	2	5.391	3.637	.040
	Within Groups	40.019	27	1.482		
	Total	50.800	29			
supply chain efficiency	Between Groups	.622	2	.311	.313	.734
	Within Groups	26.845	27	.994		
	Total	27.467	29			

Source: Primary Data, SPSS output.

6. CONCLUSION

The study found that the views of various stakeholders differed significantly across income and age groups for increased availability of varieties of products in last three years. However with respect to all other variables considered for study views did not differ across all the three categories namely age, income, stakeholders. The views of the customers on FDI in retail are mixed. Once again validating the fact India is truly a country of diversity be it culture or FDI in retail.

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