

INDIA'S GOVERNANCE CHALLENGE: A CRITIQUE ON COMPETITION, CULTURE AND RETAIL BUSINESS

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INTRODUCTION

India is facing greater amount of governance challenge in recent years. Many issues including the severity of parallel economy, the immature market with huge middle class and poverty class, growing corporate corruptions, cultural difference in buying behavior are making the governance task more difficult. There is a rate race among the consumers of middle class and small and medium retailers in most of the developing countries, including India, in deciding the lifestyle and purchase behavior of their citizens. A lion's share of income of middle class and poverty class families of developing countries is spent in retail purchase. Culture is a way of life people are accustomed to follow certain practices based on the income, occupation and lifestyle. When compare with other developed countries, India is a largest populated country in the world and comprised of largest share of middle class and poverty class society. Many policy makers suggest that since India is a dignified signatory for GATT, opening up of retail business for foreign investors is to be encouraged. Some researchers perceived adverse implications of FDI (foreign direct investment) based on critical analysis of political, socio-economic and cultural conditions of the country. This paper tries to explore some important critiques and research questions as a thought provocation on Indian retail business practice.

OBJECTIVES OF THE STUDY

The following are the objectives

1. To study the competitive scenario of retail business in Indian context;
2. To study and identify the existing problems and capabilities of Indian government to make regulations and practices with regard to retail business;
3. To study and identify the class structure of Indian society and its role in retail business;
4. To study the cultural consequences on purchase decisions; and

5. To raise appropriate research questions for further research with regard to retail business.

METHODOLOGY

It is review article intends to review literature related to retail business, competition and cultural implication with regard to retail business in a developing country's context.

GDP and Parallel Economy

The Indian retail sector has been put into severe competition than ever before. The real competition exists between corporate players and small retailers; domestic culture and global culture; organised market and unorganised market; government regulations and private practices; gross domestic products and parallel economy; buying behavior of the richest and poorest of the poorest. It is believed by many economists that the FDI is an indirect intruder passing through an unhealthy business to a further unhealthy competition.

Indian economy is neither controlled economy nor open economy; it is also not mixed economy since it is not proportionately distributed to the people on social equity. It is the country where economic offences are plenty and innumerable. The informal economy is taking course in most of the Asian countries. The parallel economy was variously referred to as 'unaccounted economy', 'illegal economy', and 'subterranean economy' or 'unsanctioned economy' (Sukanta Sarkar, 2010). The parallel economy has been expanding rapidly which is major socio-economic and development concern for Indian governance. It is also an informal economy neither taxed and nor monitored by the government and its implications are dead-against to formal economy. The report on the "Survey on Bribery and Corruption" stated that 68% of India's aggregate illicit capital loss occurred after India's economic reforms in 1991, indicating that deregulation and trade liberalization actually contributed to or accelerated the transfer of illicit money abroad (Association of Certified Fraud Examiners, 2011). It is also reported that wealth is stashed in offshore destinations and tax havens also go to indicate the extent of the problem (<http://www.supersystems.in/economy/economy12.htm>). In corruption perceptions index (CPI) India is ranked 87 numbers out of 178 countries.

Over 30% of GDP or around Rs. 25 lakh crore is estimated to be taken away by Indians as black money (Hindustan Times, 26th Jan 2013). About one third of India's black money transactions are believed to be in real estate, followed by manufacturing and shopping for gold and consumer goods (<http://www.spaceviewtimes.com/index>). India's total annual welfare spending is about Rs. 3 lakh crore. If hidden incomes of Rs. 25 lakh crore were to be disclosed and taxed at 30%, it would generate Rs. 8.5 lakh crore, enough to build a 2,000-bed super-specialty hospital in each of India's 626 districts.

(www.spaceviewtimes.com/index).

With regards to Foreign Exchange Management Act (FEMA) which came into force in 2000, the statistics for the period 1 June 2000 to 31 March 2012 are as follows:

1. No. of cases registered: 23,118

2. No. of show cause notices issued: 4,819
3. No. of cases adjudicated: 3,259
4. Amount of Penalties Imposed: INR. 1,678 crore
5. The number of cases still pending: 23,118 (Source: The White Paper on Black Money, 2012, MOF, GOI).

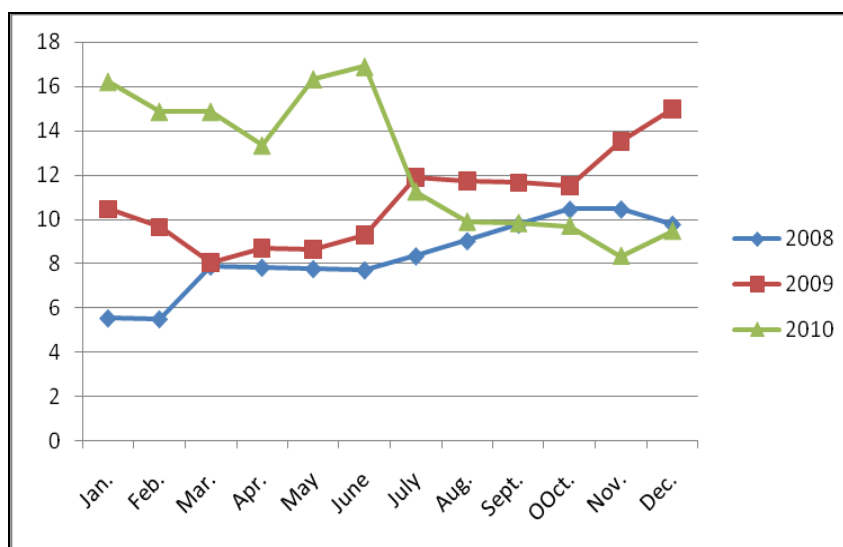
In general, Indian is having about 35 million court cases pending. For a longer time, India has been facing governance challenges at various levels. Rigid bureaucracy, complex laws and long-drawn judicial process deter people from considering legal recourse in corruption cases [http:// www.supersystems.in/economy/ economy12.htm](http://www.supersystems.in/economy/economy12.htm)).

Retail industry is a very big opportunity for intruders of parallel economy where hoarding, smuggling and black money are frequently taking place. The government has noticeably inefficient to monitor or to control the block economy. The present scenario often fails to control our own domestic operation. Allowing FDI is an additional burden to the government operation which is already struggling for efficiency. The recent Indian government experience is, rich in law making by too many regulations, but poor in execution. For example, the poor execution of MRTP (Monopolies & Restrictive Trade Practice) Act, Prevention of Money Laundering Act, Acts related to Adulteration, Acts related to Foreign exchange and other economic & business laws which suffer due to inadequate manpower, infrastructure facility, and autonomy. The poorly managed Indian legislations do not guarantee economic and social welfare to the common man as it reflects in the constitution. Government of India introduced commissions under Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta for estimating black economy. But, no committee controls parallel economy in the country.

The Problem of Unorganized Retailers

The larger number of retailers is unorganised. The organized retail in India is 4-5% in 2007, will be 14-18% in 2015 (Mckinsey & Co., 2008). The organized retailers also lack information namely, daily sales, overhead, employees, shipping, traffic, campaigns etc. To make any business strategy, the list of players, SWOT analysis and the competitive spirit of the participants have to be analyzed. Without making way for domestic players, inviting foreign players for mere investments will influence some more complication in the industry. India-the case of untapped potential to whom it benefits if open to global players?

Food retail business is in pathetic condition in India. The annual changes of CPI are a strong evidence of frequently changing price in Indian consumer market and the status of informal economy.



Source: Compiled from Indian Consumer Price Index (CPI)

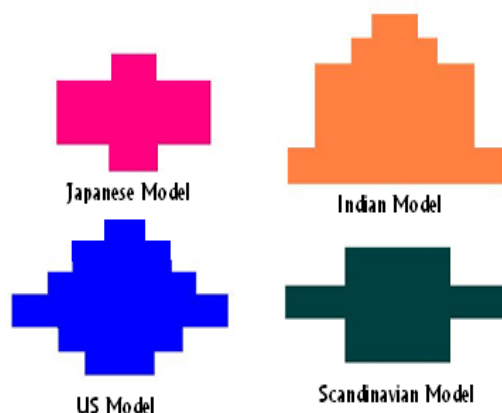
Figure 1. Annual Changes in Consumer Price Index (CPI) during 2008-2010

Culture and Competition

Cultural is having a very major impact in relationships and networks when people conduct retail business. The buying decisions differed as consumers and as business players. With regard to business, Asian markets reflected more focus on relationships (particularism), on group rights (collectivism) on the indirect expression of emotions (neutral rather than affective) (Schutte & Ciarlante, 1998). Subsequently, Hofstede & Bond (2001) reviewed Asian cultural dimension as Confucian Dynamism (long term orientation). Majority of the Indian consumers buy products in retail because of cost convenient as they don't have sufficient income even to invest for a month of their lively-good. Whole sale buyers in India are meager and retail consumers a very major portion. Over 14 million outlets operate only 4% of them being larger than 500 sq ft. The remaining 96% retailers' business occupancy is just below 500 sq ft. The average growth of Indian GDP is 6%, but the growth of middle class is 10-12% per annum, estimates to reach 300 million people.

The relative sizes and structures of social classes vary by culture. For example, Japan and Scandinavia are characterized by a large middle class with few people above or below it. India on the other hand, has a greater proportion of individuals in the lower classes. The United States has a large middle class, but also has significant proportion in the upper and lower classes. The following is class structure by culture. The social structure is very important factor to predict norms and behaviours of consumers based on the class structure. The important standing of class structure normally depends on income, occupation and education. It is usual that individuals with same occupation tend to share similar income,

lifestyle, knowledge and values. Hence the Indian retail business is having core responsibility of satisfying a huge middle class and poverty class society.



Source: Edward W.Cundiff & Marye T.Hilger (1988)

Figure 2. Class Structure by Culture

As western markets saturated, the international marketers have been turned increasingly to the markets of developing countries. For example, the sale of Coca Cola is double in India, China and Indonesia in every three years, but it is just 5% increase in US (Arnold and Quelch, 1999). Prahalad and Lieberthal (1998) commented that international firms are having ‘imperialist mindset’ which derives firms to sell the same product as in the west in an unchanged form to the markets of developing countries. According to Prahalad and Hart (2002), in four tiers Pyramid, the fourth tier bottom of the Pyramid is consisting 65% of world population suffering with low income generation. The standardized western marketing mix offerings are unable to cope with the informal economy accounts between 30-60% of total economic activity of developing countries (de Soto, 2000). In the presence of informal economy, legal contract are not valid in international market, it is only relationship.

Creative Needs Not Real Needs

To days’ business organizations are largely depending on creative needs rather than real needs. The creative need is a kind of provocation for compulsive buying. Abundant resources of the retail business often will burden the consumer behavior through creative needs fulfillment. Usage of credit card is a kind of creative need for many Indians. The average and panel interest are more than the customised interest (say, thandal interest) for which people are induced to bear the bad culture of financial risk. Compulsive buying can harm not only the individual but his/her family and society (Faber, 2000) and can result in overspending, extreme indebtedness, and bankruptcy (McElroy 1991). Compulsive shoppers encounter temptations daily. There is a shift of buying behaviour from basic needs to self identity which often leads to compulsive buying behaviour. There is tremendous increase on

personal durable ownership & entertainment ownership among teenagers at home. Substantial research suggested that people highly oriented toward the acquisition of wealth and possessions report relatively low levels of well-being (Carver & Baird, 1998; Kasser & Ryan, 2001). Consumers who use credit cards spend more than those who use other means of payment (Somar 2001).

The abundant resources of retail businesses is often altering and restructuring the buying behaviour of middle income group, which is major portion in India. Food purchase patterns in developing economies like India are characterized by daily or frequent purchasing from nearby marketplaces (Sabnavis, 2008). Socio-demographic factors such as gender, age, educational status and income play an important role in determining the food consumption pattern across the world (Roux et al., 2000; Goyal and Singh, 2007). By promoting brand image and influencing media, corporate players play their retail game at their favour but the Indian small retailers incompetent to counter; ultimately the Indian consumers are losers.

Indian consumer culture aggressively changes as “buy now, pay tomorrow”. 20 million credit cards provokes for compulsive buying. The role of Indian banks being converted into credit banks; the plenty of credit products with easy initial formalities aggravates Indian consumers to enter into compulsive buyers.

Policy Making

We aggressively lack in policy making. Culture of the different groups taking important roles in making or suggesting policy decisions. For example, elite people (scholars, journalists and Pundits) make policy decisions affecting the poor. National policies are being bent in favour of the big businesses under the pressure of black money. Hence it is widely propagated by socialistic thinking that FDI is a subject matter of bureaucratic society and not for the benefit of the common society.

Among policy elites we include the scholars, journalists, and pundits who discuss poverty policy; the activists, advocates, scholars, and practitioners who purport to speak on behalf of the poor; and the lawmakers, employers, and non-profit leaders who, one way or another, make policy decisions that affect the conditions of the poor (Mario Luis Small et.al. 2010). The public dialogue on poverty and the policy arrived thereon are cultural products subject to the whims, predilections, prejudices, beliefs, attitudes and orientations of policy elites. Ignoring culture will lead to bad policy (Mario Luis Small et.al. 2010). The recent experience evidenced that Indians are frequently changing their cultural attitude since majority of them belong to middle income group and poverty group. But the culturally advanced European countries do not frequently change in their culture. For example, Paris law did not allow Paris women to wear trousers and the 200 years old law is lifted just now (The Hindu, Feb 5, 2013).

Issues of Governance Challenge

Consolidating the above review, the burning issues challenging Indian governance are the following:

- Need to fine tuning of relevant laws & effective implementations;

- Setting & using international platforms adequately and conveniently;
- Strategies to curb black money efficiently;
- Join global efforts to combat drug and terror funding;
- Sufficient & timely action on criminal cases involving economic & business opportunities;
- Correctional administration to reduce corruption;
- Agreement between countries for revenue sharing;
- Promoting capability resource-wise and manpower-wise to enhance competitiveness of the country;
- Strengthening social and cultural values by making appropriate business policy
- recognizing the huge middle class and poverty class of the country.

CONCLUSION

Any business is a socio-economic concept for domestic country; it is 'business-profit concept' for foreign country. The product life cycle is shorter and company's guarantee is uncertain; the neo-cultural buying behaviour urges are intensifying amongst consumers in India. There is one rich question that is there any urge of endless purchase of newer products? Often the life is focused to imaginary world of unattainable. The natural law of Maslow's Hierarchy of Needs is being defeated and an individual's need is developing unnaturally and unethically. People are not cultured in which the way goods are supplied; it is goods have to be modified so as to suit to the cultural and socio-economic conditions of the people.

Competitiveness is a strategic capability on which business competition war can be waged. In the absence of the capability and compatibility, mere regulation will not serve the purpose of competition. Retail is not just business; it is a socio-economic opportunity and goods & service availability to a vast middle class and poverty class society in India.

At this juncture, do we really benefit from foreign direct invest as it is already proved as bureaucratic policy and indirect intruder to Indian economy?

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