Impact of Foreign Direct Investment Policy on Business of Indian Private Sector Banks

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Abstract:

The present study analyzed the impact of foreign direct investment policy on the business of selected Indian private sector banks. The required data were collected from secondary sources like RBI Data-warehouse, Report on Trends and Progress of Banking in India, IBA Bulletins, Journals, and Online databases for a period of fourteen years *i.e.* from 2004-05 to 2017-18. The collected data were analyzed through descriptive and inferential statistical techniques like correlation, t-test and ANOVA with the help of PASW (18.0 Version). The study found that the relationship of FDI, Staff and Expenditure (independent variables) with Business per Employee (dependent variable) is not significant, whereas there is a significant relationship of FDI, Staff and Expenditure (independent variables) with Business per Branch (dependent variable). The Business per Employee (dependent variable) is explained by the FDI, Staff and Expenditure (independent variables) to the level of 15.0 percent only, whereas the Business per Branch (dependent variable) is explained by the FDI, Staff and Expenditure (independent variables) to the level of 70.3 percent. There is no significant impact of FDI, Staff and Expenditure (independent variables) on Business per Employee (dependent variable), whereas the impact of FDI, Staff and Expenditure (independent variables) on Business per Branch (dependent variable) is found significant. It is recommended that there is a need of investment from abroad to meet the capital adequacy requirements of the banking sector to improve the business of the banking sector and ensure the growth of Indian economy, but FDI should not over ride the regulations of RBI and other regulatory bodies.

Keywords: *Business, Employee, Branch, Expenditure, Correlation.*

INTRODUCTION

Foreign direct investment flows (inflows and outflows) occupied a prominent place in the global economy (*Laghane, 2007*). It not only certifies the economic growth and development of developing countries like India. *(Pardeep, 2011)*, but also opens the doors to optimize national earnings by employing the resources productively. Prior to independence, the British Government in India had no precise policy regarding foreign capital. The capital invested by the Britishers was given preference over the capital invested by other countries. After independence, in the first industrial policy of 1948, the role of foreign capital in the economic development of the country was acknowledged (*Jain et al., 2016*). FDI is a tool of bringing knowledge and integration into global production, which is the foundation of successful exports strategy. FDI flows are vital for accelerating the desired degree of growth and development (*Laghane, 2007*). Foreign capital has made significant contribution in the development of railways, electricity, jute industry, tea and coffee plantation, and coal and other mines in India. The banking sector has also shown a remarkable progress in offering employment since the last few years and hopefully will continue to remain a highly dominant sector in India despite financial slowdown. Now, most of the Indian banks are competing at international level on the basis of their innovative products and sound financial status (*Jaiswal, 2016*).

REVIEW OF LITERATURE

Articles appeared in various journals on different aspects of FDI do not give a comprehensive picture of

impact of FDI on the financial performance of Indian banks. *Patil (2014)* found an increase in the productivity of Indian banks in FDI liberalized period and also showed a significant positive impact on return on assets (ROA) and total business of the banks, but a negative impact on the total net profits and income of the banks. *Kirthika and Nirmala (2015)* analyzed the overall efficiency of foreign banks operating in India for a period of five-years commencing from 2008-09 to 2012-13 and found that the effectiveness of foreign banks operating in India have covered a large customer base due to their swift, methodical working style and improved customer service. *Sekar (2015)* concluded that India is unable to attract FDI mainly due to poor business environment prevailing in the country. *Reddy (2016)* found a significant positive impact of FDI on total business, business per employee and total income of the banks, but had a negative influence on profit per employee and total net profits of the selected banks. *Maiti and Jana (2017)* investigated the impact of internal factors on the profitability of 75 banks of five bank groups in India and found a significant impact on the profit per employee, net interest margin, net non-performing assets ratio and non-interest income of all bank groups. *Antony and Paul (2018)* concluded that there is a remarkable influence of equity capital, reinvested earnings and intra-company loans on bank performance in Kenya. *Shao and Xiao (2019)* found that modern banking system has increased the probability of OFDI of domestic non-SOEs and suggested that FDI may also help the domestic enterprises to face the competition at international level. The foregoing review of literature reveals that there is a need to study the impact of FDI on the business of Indian private sector banks.

RESEARCH OBJECTIVES

This study analyzed the impact of FDI policy on the business per employee (BPE) and business per branch (BPB) of the selected Indian private sector banks. The specific objectives of the study are:

1. To study the relationship between the FDI, Staff, Expenditure and BPE/BPB of the selected banks.
2. To examine the contribution of FDI, Staff and Expenditure in the prediction of BPE/BPB of the selected banks.
3. To analyze the impact of FDI, Staff and Expenditure on the BPE/BPB of the selected banks.

RESEARCH HYPOTHESES

The following hypotheses were formulated to validate the results of the study:

H_{01}: There is no significant relationship between FDI, Staff, Expenditure and BPE of the selected banks.

H_{02}: There is no significant contribution of FDI, Staff and Expenditure in the prediction of BPE in the selected banks.

H_{03}: There is no significant impact of FDI, Staff and Expenditure on the BPE of the selected banks.

H_{04}: There is no significant relationship between FDI, Staff, Expenditure and BPB of the selected banks.

H_{05}: There is no significant contribution of FDI, Staff and Expenditure in the prediction of BPB in the selected banks.

H_{06}: There is no significant impact of FDI, Staff and Expenditure on the BPB of the selected banks.

RESEARCH METHODOLOGY

The sample taken for the present study is sixteen old and new private sector Indian banks *i.e.* Axis Bank, Catholic Syrian Bank Ltd., City Union Bank Limited, Dhanlaxmi Bank, Federal Bank, HDFC Bank, ICICI Bank, Indusind Bank, Jammu & Kashmir Bank Ltd, Karnataka Bank Ltd., Karur Vysya Bank, Kotak Mahindra Bank Ltd, Lakshmi Vilas Bank, South Indian Bank, Tamilnad Mercantile Bank Ltd. and Yes Bank Ltd. Foreign Direct Investment FDI), Staff and Expenditure are taken as independent variables (*Patil, 2014 & Reddy, 2016*) and Business per Employee (BPE) and Business per Branch (BPB) are dependent variables. The study covered a time span of fourteen years *i.e.* from 2004-05 to 2017-18. The required data is mainly collected from RBI Data warehouse, Report on Trends and Progress of Banking in India, IBA Bulletins, Journals and Online database. Multiple Regression technique was used to know the relationship among the variables and to examine the impact of the independent variables on dependent variable. Further, ANOVA and independent Sample t-test have been used to test the research hypotheses and validate the results of the study.

The impact of FDI policy on BPE for the period under the study is examined with the help of the following equation:

$$BPE = \beta_0 + \beta_1 \times FDI + \beta_2 \times Staff + \beta_3 \times Exp + e_1 \ldots\ldots.(i)$$

Where, **BPE** = Business per employee for the period, **FDI** = FDI for the period, **Staff** = Staff for the period, **Exp** = Expenditure for the period, β_0 = Intercept (Constant), $\beta_1, \beta_2, \beta_3$ = The slope represents the degree with which bank's productivity changes as the

independent variable changes by one unit of variable, and $e_{i,t}$ = error component.

The impact of FDI policy on BPB for the period under the study is examined with the help of the following equation:

$$BPB = \beta_0 + \beta_1 \times FDI + \beta_2 \times Staff + \beta_3 \times Exp + e_1 \ldots\ldots(ii)$$

Where, **BPB** = Business per branch for the period, **FDI$_3$** = FDI for the period, **Staff** = Staff for the period, **Exp** = Expenditure for the period, **β_0** = Intercept (Constant), **β_1, β_2, β_3** = The slope represents the degree with which bank's productivity changes as the

independent variable changes by one unit of variable, and $e_{i,t}$ = error component.

RESULTS AND DISCUSSIONS

Impact on Business per Employee (BPE)

Table-1 shows that the coefficients of correlation of BPE with independent variables *i.e.* FDI, Staff and Expenditure are 0.302, 0.110 and 0.177 respectively. There is a low degree of correlation between dependent and independent variables. The *p*-values of correlation coefficients show that there is no significant relationship between dependent and independent variables; hence the null hypothesis (H_{01}) is rejected. However, the relationship of FDI with Staff and Expenditure is found significant.

Table - 1: Coefficients of Correlations among the Variables

Variables		BPE	FDI	Staff	Exp
Pearson Correlation	BPE	1.000			
	FDI	0.302	1.000		
	Staff	0.110	0.662	1.000	
	Exp	0.177	0.689	0.968	1.000
Sig.	BPE				
	FDI	0.128			
	Staff	0.342	0.003*		
	Exp	0.256	0.002*	0.000*	

Source: Reports of RBI and IBA (various issues).
Note: *Significant at 5 percent level.

Table-2 shows that the coefficients of BPE in which all the independent variables have been included in the model for prediction of dependent variable. Unstandardized beta values have been used to compare the contribution of each independent variable. The negative beta coefficient shows an inverse relationship between dependent (BPE) and independent variable (Staff). The largest beta value *i.e.* 0.392 of FDI shows that this independent variable contributed maximum in explaining the dependent variable. The results of t-test

depict that the contribution of independent variables is not statistically significant for the prediction of the dependent variable as the *p*-values of all the independent variable (FDI, Staff and Expenditure) are greater than 0.05, hence the null hypothesis (H_{02}) is accepted. Further, the model summary shows that the dependent variable (BPE) is explained by the independent variables (FDI, Staff and Expenditure) to the level of 15.0 percent only.

Table - 2: Coefficients of BPE and Model Summary

Model		Unstandardized Coefficients		t- value	*p*- value	R-Square
		Beta	Std. Error			
1	(Constant)	71.712	12.822	5.593	0.000	0.150
	FDI	0.392	0.431	0.911	0.380	
	Staff	-0.001	0.001	-0.895	0.389	
	Exp	0.000	0.000	0.790	0.445	

Source: Reports of RBI and IBA (various issues).

ANOVA results in Table-3 depict that there is no significant impact of independent variables on dependent variable (p=0.567), therefore the null hypothesis (H_{03}), *i.e.* there is no significant impact of FDI, Staff and Expenditure on BPE is accepted at 5 percent level of significance.

Table - 3: ANOVA Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1009.537	3	336.512	0.705	0.567
Residual	5730.119	12	477.510		
Total	6739.656	15			

Source: Reports of RBI and IBA (various issues).

Impact on Business per Branch (BPB)
Table-4 shows that the coefficients of correlation of BPB with independent variables *i.e.* FDI, Staff and Expenditure are 0.736, 0.710 and 0.775 respectively. There is a high degree of correlation between dependent and independent variables. The *p*-values of correlation coefficients show that there is a significant correlation between dependent and independent variables; hence the null hypothesis (H_{04}) is rejected. However, the relationship of FDI with Staff and Expenditure is found significant.

Table - 4: Coefficients of Correlation among the Variables

Variables		BPB	FDI	Staff	Exp
Pearson Correlation	BPB	1.000			
	FDI	0.736	1.000		
	Staff	0.710	0.662	1.000	
	Exp	0.775	0.689	0.968	1.000
Sig.	BPB				
	FDI	0.001*			
	Staff	0.001*	0.003*		
	Exp	0.000*	0.002*	0.000*	

Source: Reports of RBI and IBA (various issues).
Note: *Significant at 5 percent level.

Table-5 shows that the coefficients of BPB in which all the independent variables have been included in the model for prediction of dependent variable. The unstandardized beta values have been used to compare the contribution of each independent variable. The negative beta coefficient shows an inverse relationship between dependent (BPB) and independent variable (Staff). The largest beta value *i.e.* 13.175 of FDI shows that this independent variable contributed maximum in explaining the dependent variable (BPB). The results of t-test depict that the contribution of independent variables is not significant for the prediction of the dependent variable as the *p*-values of all the independent variable (FDI, Staff and Expenditure) are greater than 0.05, hence the null hypothesis (H_{05}) is accepted. Further, the analysis shows that the dependent variable (BPB) is explained by the independent variables (FDI, Staff and Expenditure) to the level of 70.3 percent.

Table - 5: Coefficients of BPB and Model Summary

Model		Unstandardized Coefficients		t-value	*p*- value	R-Square
		beta	Std. Error			
1	(Constant)	433.677	224.289	1.934	0.077	0.703
	FDI	13.175	7.537	1.748	0.106	
	Staff	-0.023	0.023	-0.996	0.339	
	Exp	0.010	0.006	1.724	0.110	

Source: Reports of RBI and IBA (various issues).
Note: *Significant at 5 percent level.

ANOVA results in Table-6 depict that there is a significant impact of independent variables (FDI, Staff and Expenditure) on dependent variable (BPB), therefore the null hypothesis (H_{06}) *i.e.* there is no significant impact of FDI, Staff and Expenditure on

Business per Branch (BPB), is rejected at 5 percent   level of significance.

Table - 6: ANOVA results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4153479.273	3	1384493.091	9.475	0.002*
Residual	1753401.853	12	146116.821		
Total	5906881.126	15			

Source: Reports of RBI and IBA (various issues).
Note: *Significant at 5 percent level.

CONCLUSION AND RECOMMENDATIONS

The study found that the relationship of FDI, Staff and Expenditure (independent variables) with Business per Employee (dependent variable) is not significant, whereas there is a significant relationship of FDI, Staff and Expenditure (independent variables) with Business per Branch (dependent variable). The Business per Employee (dependent variable) is explained by the FDI, Staff and Expenditure (independent variables) to the level of 15.0 percent only, whereas the Business per Branch (dependent variable) is explained by the FDI, Staff and Expenditure (independent variables) to the level of 70.3 percent. There is no significant impact of FDI, Staff and Expenditure (independent variables) on Business per Employee (dependent variable), whereas the impact of FDI, Staff and Expenditure (independent variable) on Business per Branch (dependent variable) is found significant. It is recommended that there is a need of investment from abroad to meet the capital adequacy requirements of the banking sector to improve the business of the banking sector and ensure the growth of Indian economy, but FDI should not over ride the regulations of RBI and other regulatory bodies.

DIRECTIONS FOR FUTURE RESEARCH

The findings of the present study do not answer the questions about how the good governance of the institution reduces the negative impacts of foreign ownership, why the business of a Indian FDI banks differs from non-FDI banks, how the short-term impacts of FDI can be distinguished from its long-term impacts, and how the performance of FDI banks differs from non-FDI banks? Therefore, the efforts may be made by the researchers to find the answers of the above questions in future.

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