

ROLE OF FOREIGN DIRECT INVESTMENT IN ENHANCING INNOVATIVE BUSINESS PRACTICES IN INDIA: AN EMPIRICAL STUDY

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ABSTRACT

As of 2023, India holds the 8th spot globally in terms of receiving foreign direct investment, highlighting the nation's vital importance of FDI to its economic growth and development. It involves overseas companies or individuals putting their money into businesses and sectors within the country's economy. "This study explores the crucial impact of foreign direct investment (FDI) in driving India's economic growth, as the country continues to stand out as, one of the top destinations for global investment." Foreign direct investment plays a key role in boosting growth across various sectors-from agriculture and manufacturing to services meaningful changes to India's overall economic landscape. By tapping into foreign direct investment, Indian businesses gain access to advanced technologies, improve their productivity, and explore fresh opportunities for growth and expansion. Foreign direct investment plays a vital role in fueling economic growth by directing funds into productive sectors, encouraging the exchange of technology, and boosting innovation and market competition. It supports India's long-term goals of inclusive development and lasting prosperity. A sample of 247 was collected. The factors that influence the role of Foreign Direct Investment in Enhancing Innovative Business Practices in India are the Technological and Innovation Ecosystem, Technology Transfer and Knowledge Sharing, Skill availability & Human capital, and Green and Sustainable Innovation.

KEYWORDS: Foreign Direct Investment, Economic growth, Advanced technologies, Productivity, Economic landscape.

INTRODUCTION

Foreign direct investment (FDI) has been instrumental in advancing India's economic progress, supporting fiscal resilience and fostering expansion across multiple industries.

Since, the economic reforms of 1991, India has adopted a more open-market approach, welcoming global investors by easing trade restrictions and encouraging investments across both public and private sectors. FDI acts as a key driver, for stimulating progress across various sectors from agriculture and manufacturing to services-playing a vital role in reshaping and advancing India's economic framework. Foreign direct investment goes beyond merely transferring capital across borders. It also involves the global exchange of essential assets that complement investment-like specialized knowledge, operational methods, managerial expertise, and advanced technologies which play a crucial role in strengthening innovation and modernizing business practices. Asongu et.al. (2018), mentioned that by making use of foreign direct investment, Indian businesses are able to gain access to modern technologies, boost their efficiency, and open up new paths for innovation and long-term growth. Thoroughly examining real-world data and relevant theories, this study aims to shed light on the specific ways in which foreign direct investment supports and drives India's economic growth. Sahu & Tiwari. (2024), stated encouraging the exchange of advanced technologies, directing funds into meaningful ventures, and boosting competitiveness and creativity, foreign direct investment acts as a powerful engine of economic growth by supporting India's vision for long-term progress and prosperity. The present research work aims to explore, how the innovation approaches of major multinational companies are evolving, with special attention given to their global expansion strategies. In recent years, foreign direct investment has surged, now far surpassing traditional forms of development aid. Therefore, Khalid & Abdul. (2025), asserted in today's rapidly globalizing world, Foreign direct investment (FDI) has become a catalyst for advancing innovative business practices and fueling economic progress worldwide. By enabling cross-border capital inflows and encouraging the exchange of technology, knowledge, and skills, FDI is reshaping how businesses grow and adapt, opening new doors to creativity and long-term development for countries at different levels of economic advancement. In a country like India with its rich resource base and expansive population- FDI has been instrumental in not just boosting economic momentum, but also towards fostering innovation, modernizing business practices, and introducing new technologies that fuel long-term development. This paper seeks to examine the multifaceted role of foreign direct investment (FDI) in shaping India's economic progress, with a particular focus on its influence in creating job opportunities, facilitating the exchange of advanced technologies, boosting export activities, and driving sustained economic expansion while, also highlighting how FDI supports the modernization and innovation of business practices across industries. Globalization has significantly influenced India to liberalize its, market for foreign investment. To facilitate this, the government of India has introduced key economic reforms and eased restrictions on trade. With the removal of trade barriers, Indian industries witnessed remarkable expansion across various sectors. This shift not only accelerated technological progress but, also boosted the country's export-import capabilities, laying a strong foundation for innovation and modern business practices.

LITERATURE REVIEW

According to Kumari et.al. (2023), the complex link between Foreign direct investment and economic growth has drawn significant attention from researchers and analysts, particularly when examining its role in shaping the development of emerging economies like India. In this context, FDI is often seen not just as a source of capital but, as a catalyst towards fostering innovation, modernizing business operations, and performing competitive practices. Foreign direct investment is frequently linked to the introduction of cutting-edge technologies

and modern management techniques in the recipient countries. This infusion of innovation and expertise often, helps local businesses upgrade their practices, streamline operations, and stay competitive in a rapidly evolving global market. Singh. (2024), findings stated Foreign Direct Investment (FDI) refers to the allocation of capital by a company or entity from one nation into business operations in another, to build a sustained and influential presence. In the context of nurturing innovative business practices, FDI often brings not just financial resources but, also cutting-edge technologies, modern management techniques, and global market access, fueling long-term growth and transformation. The concept of Foreign Direct Investment (FDI) goes beyond just the cross-border flow of money. Therefore, it also includes the global exchange of vital components that support capital-such as expertise, operational practices, leadership strategies, and advanced technologies. The above-mentioned elements though, play a key role in fostering innovation and elevating business efficiency in the host country. Industries like telecom, IT and various sectors emerged as promising avenues for global investors eager to tap into an expanding market supported by a talented and tech-savvy workforce. After the year 2000, there was a sharp surge in foreign direct investment, largely fueled by the creation of Special Economic Zones (SEZs) and continued policy changes designed to make it easier for overseas investors to enter the Indian market. These developments not only attracted capital but, also encouraged the adoption of new technologies and modern management practices, contributing to more innovative business growth. Obeng et.al. (2025), asserted Foreign Direct Investment supports the host country's progress in several meaningful ways- one of the most visible and valuable benefits is the generation of employment opportunities. This is a key motivation for many countries-particularly developing economies actively seek foreign investment. Rise in FDI not only stimulates the manufacturing landscape but, also energizes the service sector, paving the way for modern, innovation-driven business ecosystems. One of the most evident benefits according to Pal et.al. (2024), Foreign direct investment is its ability to generate employment. For a country like India advancing through various stages of development has become a major incentive to attract investors. The surge in FDI not only energizes the manufacturing domain but also, strengthens the services industry, fostering a climate of innovation and entrepreneurial growth across the business landscape. This, in turn, paves the way for job creation and helps curb unemployment across various segments-including educated youth, skilled workers, and unskilled labour. People of India can gain access to employment opportunities, and household income rises, leading to stronger purchasing power. This uplift in consumer spending drives demand and injects vitality into the Indian economy, fostering a cycle of growth and innovation in the business ecosystem. Foreign investment can play a pivotal role in turning underdeveloped or remote regions into thriving industrial hubs. Such transformation not only accelerates local economic activity but, also uplifts the overall socio-economic conditions of the area. The above-mentioned stands out as one of the most impactful advantages of FDI for a developing nation like India. One of the prime examples of this is the Hyundai manufacturing plant in Sriperumbudur, Tamil Nadu, which has significantly contributed to regional growth and innovation. Prabhakar. (2024), mentioned that Indian organizations gain access to cutting-edge financing solutions, world-class technologies, and refined operational methods. These advanced tools and processes weave into the local economy, boost productivity and ignite innovative business practices across India's industries. Products manufactured through Foreign Direct Investment (FDI) aren't always intended for local markets-many are designed for global demand. The development of fully Export-Oriented Units (EOUs) and Special Economic Zones (SEZs) has further, empowered FDI-backed enterprises to scale up their exports, driving innovation and

competitiveness in India's business ecosystem. A steady influx of Foreign Direct Investment (FDI) leads to a constant inflow of foreign currency, strengthening the nation's foreign exchange reserves. This ongoing support allows the Reserve Bank of India to maintain healthy forex levels, which in turn contributes to greater stability in currency rates essential foundation for fostering a resilient and innovation-driven economy. Miraz et.al. (2024), studied Foreign direct investment (FDI) serves as a vital stream of external funding and revenue generation for the nation. When new manufacturing units are set up, they typically rely on local labour, raw materials, and infrastructure during the construction phase. Post-establishment, these facilities continue to hire domestic workers and engage local suppliers and service providers. Prabhakar. (2024), mentioned the income earned by employees not only improves their standard of living but, also boosts local spending, triggering a positive ripple effect that drives further job creation and stimulates innovation across related industries in India. Such manufacturing units also contribute to increased tax collections for the government, which can then be reinvested in strengthening and expanding physical infrastructure like roads, power, and transport as well as financial systems. This re-investment supports innovation, encourages entrepreneurship, and helps build a more resilient and forward-looking business ecosystem in India. By allowing international companies to establish a presence in the local market, foreign direct investment (FDI) fosters a more dynamic and competitive business landscape. It not only encourages innovation and efficiency among domestic firms but also helps dismantle existing monopolies, ultimately driving better products, services, and choices for Indian consumers. Therefore, according to Khan et.al. (2019), to attract greater foreign direct investment (FDI) into the nation, the Indian government has introduced a range of reforms and strategic measures aimed at fostering a more business-friendly and innovation-driven environment. Thanks to the Make in India initiative, the manufacturing sector has witnessed a remarkable 57% surge in FDI equity inflows during the period from 2014 to 2022, compared to the years between 2006 and 2014. The Union Cabinet gave the green light to a Bilateral Investment Treaty with the United Arab Emirates, reinforcing the Atmanirbhar Bharat Mission by encouraging local manufacturing, and cutting down reliance on imports. This strategic move is expected to attract foreign capital while nurturing homegrown innovation and industrial growth. India has witnessed several noteworthy foreign investments. For instance, in July 2023, Walt Disney explored opportunities to boost Star India's performance and streamline operations options such as strategic partnerships or partial divestments. These efforts reflect a broader trend of global players aligning with India's dynamic and evolving business environment to foster innovation and sustainable growth. Similarly, during the same timeframe, prominent private equity firms such as Blackstone Inc., BPEA EQT, CVC Capital Partners, and General Atlantic actively engaged in the competitive bidding for Mumbai-based Indira IVF Hospital Pvt. Ltd. Their involvement highlights the growing investor confidence in India's healthcare sector and underscores the role of strategic capital; in driving innovation and expansion with the country's emerging industries. A prominent illustration of Foreign direct investment in India is Google's purchase of a 7.73% stake in Reliance Jio Platforms for \$4.5 billion. This substantial deal marked a major boost to India's digital ecosystem, reflecting strong international confidence in the country's growing tech landscape and its potential for innovation-driven growth. Zameer et.al. (2020), acknowledged several industries in India are open to Foreign Direct Investment (FDI) as a means to strengthen economic growth and encourage the adoption of advanced technologies. Key sectors that welcome FDI include agriculture and livestock, public and private banking, biotechnology, aviation, infrastructure development, healthcare and pharmaceuticals, as well as telecommunications. This approach

not only brings in capital but, also fosters innovation and modern practices across these vital areas of the economy. Brings in advanced technologies and modern management expertise, improves local workforce capabilities through hands-on training and supports key infrastructure projects like ports, energy plants, and utilities-driving innovation and development across sectors in India.

Objective

To study the Role of Foreign Direct Investment in Enhancing Innovative Business Practices in India.

Methodology

A sample of 247 participants was collected from entrepreneurs running different scales of business. The method of sampling was “Random sampling” for collection of data and examination was done by “Explanatory Factor Analysis” for results.

Findings

Table 1 demonstrates demographic details, it shows that 54.25% are Male, and 45.75% are female. Looking at the age, 35.63% are between 35 to 40 years of age, 31.58% are between 40 to 45 years of age, and 32.79% are above 45 years of age. With regards to the Type of Business, 35.22% are Small scale businesses, 27.93% are Medium scale businesses, and 36.85% are large-scale businesses.

Table 1 Respondent’s Details

| Variables | Participants | Percentage |
|-------------------------|--------------|------------|
| Gender | | |
| Male | 134 | 54.25% |
| Female | 113 | 45.75% |
| Total | 247 | 100 |
| Ages in years | | |
| 35 to 40 | 88 | 35.63% |
| 40 to 45 | 78 | 31.58% |
| Above 45 | 81 | 32.79% |
| Total | 247 | 100 |
| Type of Business | | |
| Small Scale | 87 | 35.22% |
| Medium Scale | 69 | 27.93% |
| Large Scale | 91 | 36.85% |
| Total | 247 | 100 |

“Factor Analysis”

“KMO and Bartlett's Test”

Table 2 “Kaiser-Meyer-Olkin Measure of Sampling Adequacy”

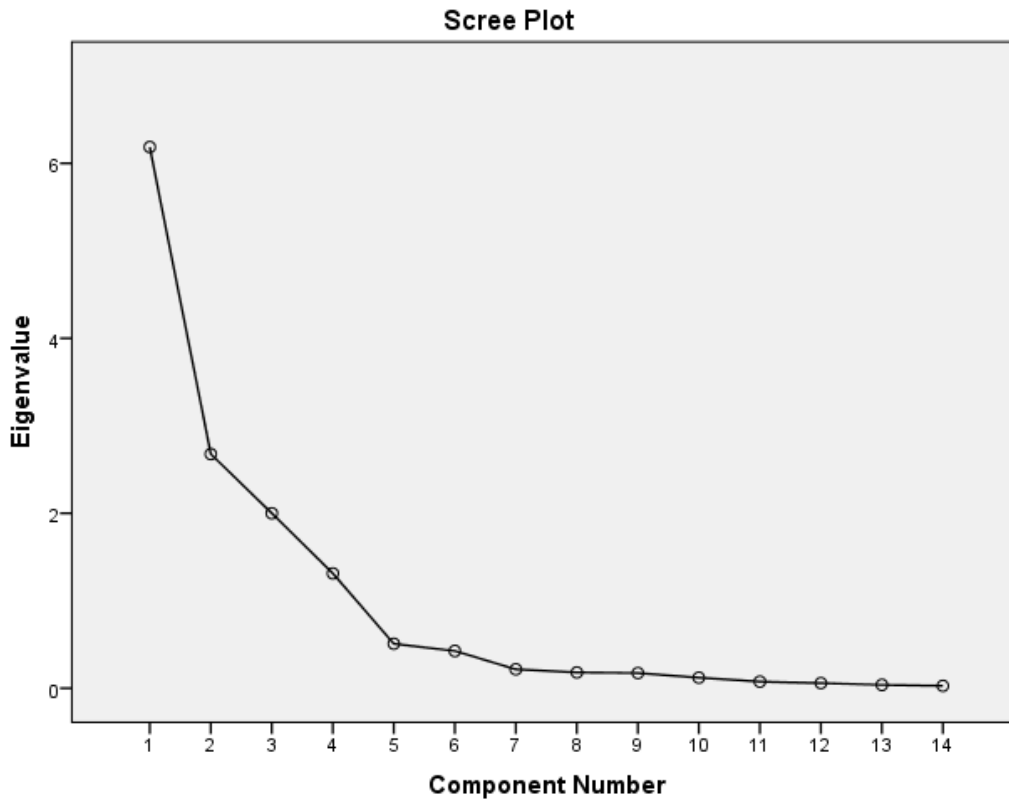
| | | |
|---|----------------------|----------|
| “Kaiser-Meyer-Olkin Measure of Sampling Adequacy” | | .759 |
| “Bartlett's Test of Sphericity” | “Approx. Chi-Square” | 4124.805 |
| | df | 91 |
| | Significance | .000 |

"KMO and Bartlett's Test", the value of KMO is .759 (Table 2).

Table 3 “Total Variance Explained”

| “Component” | “Initial Eigenvalues” | | | “Rotation Sums of Squared Loadings” | | |
|-------------|-----------------------|-----------------|----------------|-------------------------------------|-----------------|----------------|
| | “Total” | “% Of Variance” | “Cumulative %” | “Total” | “% Of Variance” | “Cumulative %” |
| 1. | 6.186 | 44.185 | 44.185 | 3.788 | 27.055 | 27.055 |
| 2. | 2.677 | 19.119 | 63.303 | 3.641 | 26.008 | 53.063 |
| 3. | 2.000 | 14.284 | 77.587 | 2.440 | 17.431 | 70.494 |
| 4. | 1.313 | 9.380 | 86.967 | 2.306 | 16.473 | 86.967 |
| 5. | .509 | 3.633 | 90.600 | | | |
| 6. | .426 | 3.041 | 93.641 | | | |
| 7. | .216 | 1.543 | 95.185 | | | |
| 8. | .180 | 1.287 | 96.472 | | | |
| 9. | .174 | 1.240 | 97.712 | | | |
| 10. | .121 | .862 | 98.574 | | | |
| 11. | .076 | .541 | 99.114 | | | |
| 12. | .058 | .415 | 99.529 | | | |
| 13. | .039 | .275 | 99.805 | | | |
| 14. | .027 | .195 | 100.000 | | | |

The four factors contribute towards explaining a total of 86.967% of the variance. Variance explained by Technological and Innovation Ecosystem is 20.055%, Technology Transfer and Knowledge Sharing is 26.008, Skill availability & Human capital is 17.431%, and Green and Sustainable Innovation is 16.473%. (Table 3).



Scree Plot

Table 4 “Rotated Component Matrix”

| S. No. | Statements | Factor Loading | Factor Reliability |
|--------|---|----------------|--------------------|
| | Technological and Innovation Ecosystem | | .961 |
| 1. | R&D centres, technology parks and innovation hubs attract high-tech FDI. | .953 | |
| 2. | Rapid digital transformation facilitates e-commerce FDI and digital innovation | .900 | |
| 3. | Foreign investors collaborate with premium institutes to drive innovation in robotics, AI & biotech | .858 | |
| 4. | FDI enable Indian businesses to gain access to modern technologies and open new paths to innovation | .845 | |
| | Technology Transfer and Knowledge Sharing | | .949 |
| 1. | FDI brings advanced tools and know-how from developed nations to India | .953 | |

| | | | |
|----|---|------|-------------|
| 2. | MNCs establish R&D centres introducing global innovation and best practices | .900 | |
| 3. | FDIs encourage the exchange of technology and boost innovation | .858 | |
| 4. | It is a key force for an industrial ecosystem that encourages knowledge-sharing | .845 | |
| | Skill availability & Human capital | | .869 |
| 1. | The pool of software developers, engineers and data scientists encourages investment in R&D | .913 | |
| 2. | Growing start-up system is seen as fertile ground for innovation through FDIs | .834 | |
| 3. | FDIs encourage and provide a knowledgeable and skilled workforce | .791 | |
| | Green and Sustainable Innovation | | .823 |
| 1. | FDI in renewable energy and sustainable technology encourage eco-friendly innovation | .928 | |
| 2. | Electric motors and waste management innovation grown through international investment | .919 | |
| 3. | Companies adopting FDIs are contributing towards green innovation | .637 | |

Factors of the study and its related variables

Technological and Innovation Ecosystem is the first factor of the study, the variables it includes are R&D centres, technology parks and innovation hubs that attract high-tech FDI, Rapid digital transformation facilitates e-commerce FDI and digital innovation, foreign investors collaborate with premium institutes to drive innovation in robotics, AI & biotech and FDI enable Indian businesses to gain access to modern technologies and open a new path to innovation. The second of the study is Technology Transfer and Knowledge Sharing, it includes variables like FDI bringing advanced tools and know-how from developed nations to India, MNCs establishing R&D centres introducing global innovation and best practices, FDIs encouraging the exchange of technology and boosting innovation and it is a key force for an industrial ecosystem that encourages knowledge sharing. Skill availability & Human capital are a third factor, it includes variables like the Pool of software developers, engineers and data scientists encouraging investment in R&D, and a growing start-up system is seen as fertile ground for innovation through FDIs and FDIs encourage and provide a knowledgeable and skilled workforce. The last and fourth factor is Green and Sustainable Innovation, its variables are FDI in renewable energy and sustainable technology encourage eco-friendly innovation, FDI in renewable energy and sustainable technology encourage eco-friendly innovation, and Companies adopting FDIs contribute towards green innovation.

Table 5 “Reliability Statistics”

| “Cronbach's Alpha” | “Number of Items” |
|--------------------|-------------------|
| .891 | 14 |

The total reliability of 14 items that include variables for the Role of Foreign Direct Investment in Enhancing Innovative Business Practices in India is 0.891 (Table 5).

CONCLUSION

To sum up, Thakkar. (2024), analysed India’s foreign direct investment (FDI) policy serves as a vital engine for economic progress by drawing in global capital, encouraging innovative practices, and strengthening the country's infrastructure backbone-paving the way for sustainable business growth and modernization. Allows access not only to limited natural assets like fossil fuels and rare minerals but, also opens doors to a diverse talent pool-including both skilled and unskilled labour along with professional management practices and cutting-edge technology. This, in turn, supports India's push toward innovation-led development and a more robust industrial ecosystem. The upward growth path reflects encouraging progress toward its developmental objectives and the upliftment of living standards for its people. Key elements like social fairness, environmental responsibility, and inclusive growth must also be prioritized to ensure long-term innovation and balanced development across all sectors. According to Sarkutè et.al. (2024), Organizations in India have successfully entered global markets, thanks to foreign investments. Such inflows helped improve product standards and expand manufacturing capabilities, enabling Indian companies to stand shoulder-to-shoulder with international competitors. Foreign Direct Investment (FDI) has become a key force in redefining India’s industrial ecosystem-stimulating economic progress, encouraging technology adoption, and generating employment. The factors that influence the role of Foreign Direct Investment in Enhancing Innovative Business Practices in India are the Technological and Innovation Ecosystem, Technology Transfer and Knowledge Sharing, Skill availability & Human capital, and Green and Sustainable Innovation.

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