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Impact of MNCs on MSMEs in Vadodara: A Study of Competition, Employment, and Business Performance

OVERVIEW: This paper investigates the economic and managerial impact of Multinational Corporation (MNC) entry on Micro, Small and Medium Enterprises (MSMEs) in Vadodara, Gujarat. Despite a growing body of national-level literature on MNC-MSME dynamics in India, city-level empirical studies remain limited. The study addresses this gap through a primary survey of 40 MSME owners and managers in Vadodara, supplemented by secondary data from government reports, academic journals, and industry publications.

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KEYWORDS: MSMEs; multinational corporations; Vadodara; foreign direct investment; competition

ABSTRACT:

This study investigated the economic and managerial impact of multinational corporation entry on micro, small and medium enterprises in Vadodara, Gujarat. City-level evidence on this relationship is limited, so a questionnaire survey of 40 enterprise owners and managers was conducted, supported by secondary data from government reports, academic journals and industry publications. Revenue declined for 42.5% of respondents, while 35% reported growth and 22.5% reported no change. The pattern differed by sector: retail had the highest decline rate (3 of 6 firms, 50%) and food and beverage the highest growth rate (3 of 6, 50%), although these subgroups were small. Employment was largely stable, with 85% of enterprises maintaining or increasing their workforce. Improved customer service was the most common response to competition (47.5%), followed by quality improvement (42.5%). The findings suggest that multinational entry produced a varied rather than uniformly negative effect, and that local firms competed mainly through service and

quality. The sample was small and cross-sectional, so the results are descriptive and do not establish causation.

INTRODUCTION:

Multinational corporations (MNCs) are large enterprises headquartered in one country but operating in several countries. In India, the landmark economic reforms of 1991, commonly known as the LPG reforms (Liberalisation, Privatisation and Globalisation), opened the doors for large-scale MNC entry into domestic markets. The removal of industrial licensing restrictions, reduction of import duties, and easing of Foreign Direct Investment (FDI) regulations created a significantly more attractive environment for multinational companies to establish operations in India. By FY 2024–25, India recorded FDI inflows of US\$ 81.04 billion, reflecting the growing confidence of global corporations in the Indian market.¹

The Micro, Small and Medium Enterprises (MSME) sector is one of the most dynamic and pervasive structures in any economy. These enterprises play a pivotal role in driving inclusive economic growth by

¹ Press Information Bureau, "India Records USD 81.04 Billion FDI Inflow in FY 2024–25," Government of India, May 27, 2025, accessed 15 October 2026,

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2131716>.



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generating large-scale employment opportunities, contributing significantly to the country's Gross Domestic Product (GDP), and fostering entrepreneurship at the grassroots level. In India, the MSME sector contributes approximately 30.1% to GDP, accounts for 35.4% of total manufacturing output, and is responsible for 45.73% of the country's total exports as of FY 2024–25. The sector employs over 34.63 crore people across 7.86 crore registered enterprises, making it the second largest source of employment in India after agriculture.²

Vadodara, known as the cultural and industrial capital of Gujarat, is home to a thriving MSME ecosystem that forms the backbone of the city's local economy. The city hosts nearly 20,000 registered MSME units spanning a wide range of sectors including engineering and machine tools, chemicals and petrochemicals, pharmaceuticals, textiles, food processing, plastic and polymer products, and retail and services.³ Over the past two decades, MNC presence in Vadodara has grown significantly across both industrial and consumer-facing sectors.

The theoretical foundation for understanding MNC-local firm dynamics comes from Dunning's eclectic paradigm.⁴ Dunning argued that multinational enterprises possess ownership-specific advantages like proprietary technology, managerial expertise, and brand equity that justify their foreign expansion and create inherent asymmetries between foreign and domestic

competitors. Markusen and Venables built on this by modelling how FDI generates dual effects in host economies: inter-industry vertical spillovers through supplier linkages, and intra-industry crowding-out through direct competition.⁵

The empirical evidence on FDI spillovers remains contested. Görg and Greenaway concluded that evidence for positive horizontal spillovers is weak, whereas vertical spillovers through backward linkages appear more robust but remain conditional on domestic absorptive capacity.⁶ Similarly, Agosin and Machado found that FDI may either crowd in or crowd out domestic investment depending on sectoral composition and local firm capabilities.⁷ These mixed findings underscore a critical gap: while national and sectoral studies abound, city-level empirical research examining how MNC entry affects traditional MSMEs in secondary industrial hubs like Vadodara remains scarce.

This study addresses that gap by investigating how MNC presence affects local business performance, employment stability, and market access among Vadodara's MSMEs. It is guided by four research questions. First, how did MNC entry affect the revenue and profit margins of local MSMEs? Second, how did it affect employment and worker retention? Third, how did customer demand change? Fourth, what strategies did MSMEs adopt in

² Ministry of Micro, Small and Medium Enterprises, *Annual Report 2024–25* (Government of India, 2025), <https://www.msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-2024-25-ENGLISH.pdf>.

³ MSME Development Institute, *Brief Industrial Profile of Vadodara District* (Government of India, 2012), <https://dcmsme.gov.in/dips/BIP%20VADODARA%20100812.doc%20FRESH.pdf>.

⁴ John H. Dunning, "Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach," in *The International Allocation of Economic Activity*, ed. Bertil Ohlin, Per-Ove Hesselborn, and Per Magnus Wijkman (London: Macmillan, 1977), 395–418.

⁵ James R. Markusen and Anthony J. Venables, "Foreign Direct Investment as a Catalyst for Industrial Development," *European Economic Review* 43, no. 2 (1999): 335–356, [https://doi.org/10.1016/S0014-2921\(98\)00048-8](https://doi.org/10.1016/S0014-2921(98)00048-8).

⁶ Holger Görg and David Greenaway, "Much Ado about Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment?" *World Bank Research Observer* 19, no. 2 (2004): 171–197, <https://doi.org/10.1093/wbro/lkh019>.

⁷ Manuel R. Agosin and Ricardo Machado, "Foreign Investment in Developing Countries: Does It Crowd In Domestic Investment?" *Oxford Development Studies* 33, no. 2 (2005): 149–162, <https://doi.org/10.1080/13600810500137749>.



response, and how confident were they of surviving the next five years?

RESULTS

Financial outcomes

Revenue outcomes were mixed rather than uniformly negative. Seventeen firms (42.5%) reported a decline in revenue, 9 (22.5%) reported no change, and 14 (35%) reported an increase. MNC competition was therefore associated with financial pressure for a substantial share of respondents, while another sizeable group reported stable or improving revenue (Figure 1).

Profit margins showed a similar pattern of pressure. Of 38 classified responses, 19 (50%) reported margin compression, 11 reported no change, and 8 reported improved margins. Two of the 40 respondents were not classified on this question, so the margin result should be interpreted with that limitation in mind.

The effect on revenue also differed by sector. Retail had the highest decline share in the sample (3 of 6 firms, 50%), followed by manufacturing (6 of 13, 46.2%), services (6 of 15, 40%), and food and beverage (2 of 6, 33.3%). Food and beverage had the highest growth share (3 of 6, 50%). Because the sector subgroups were small, the comparison should be read as a descriptive pattern rather than a statistically generalisable sector ranking (Figure 2).

Employment and demand

The direct employment question gave a clearer overall picture. Twenty-seven firms (67.5%) reported no major change, 7 (17.5%) reported increased hiring, 4 (10%) reported reduced staff, and 2 (5%) reported a significant reduction. Thus, 85% of respondents reported either stable employment or increased hiring, while 15% reported some reduction (Figure 3). In addition, 45% of respondents had experienced MNC competition for three years or less.

The supplementary worker-retention question showed that 10 respondents (25%) had difficulty retaining workers because of higher MNC pay or better MNC working conditions, while 18 (45%) said that workers preferred to stay and 12 (30%) said that the question was not applicable.

Customer demand did not shift uniformly away from MSMEs. Nineteen respondents (47.5%) reported increased demand, 12 (30%) reported no change, and 9 (22.5%) reported decreased demand. Changes in the local market environment therefore produced different outcomes across firms rather than a single common demand effect (Figure 4).

Adaptation and survival confidence

MSMEs reported a range of strategic responses to competition. Improved customer service was the most frequently reported action (19 firms; 47.5%), followed by quality improvement (17; 42.5%), price reduction (15; 37.5%), social media marketing (11; 27.5%), niche or local product focus (6; 15%), and online selling or home delivery (3; 7.5%). Because respondents could select more than one action, these frequencies are not mutually exclusive (Figure 5).

Survival confidence was relatively high: 11 respondents (27.5%) were very confident and 19 (47.5%) were somewhat confident about surviving the next five years. Seven respondents (17.5%) were uncertain and 3 (7.5%) were not confident. Overall, 75% of the sample expressed some level of confidence in five-year survival (Figure 6).

The data showed both widespread adaptation and high survival confidence, but they did not link the number or type of management changes to each firm's survival confidence. The evidence therefore supported a descriptive comparison but did not establish a relationship between the two variables.



DISCUSSION

The findings across the four research questions pointed in a consistent direction: MNC entry in Vadodara produced a complex, sector-differentiated competitive environment in which outcomes depended heavily on what individual businesses did, not only on what MNCs did to the market around them.

Economic impact

The revenue data were more nuanced than a straightforward displacement narrative would suggest. Although 42.5% of surveyed businesses reported declining revenue, 35% reported growth and 22.5% reported no change. This matched, to a degree, what Dunning's eclectic paradigm would predict: MNCs hold ownership advantages such as global supply chains, brand equity, and scale that disadvantage local firms in direct competition. Aitken and Harrison's finding of a market-stealing effect for directly competing domestic firms was visible in the retail sector, where half the surveyed businesses reported revenue decline.⁸ Yet two retail businesses achieved revenue growth in the same period, which suggests that competitive positioning still mattered even in the most directly exposed sector.

The food and beverage results were harder to explain through a pure displacement lens. Three of six firms reported growing revenue, and only two reported decline. This looked more like what Smarzynska described as the indirect benefit of MNC presence, in which economic activity stimulated by MNC investment generates spillover demand for adjacent local businesses rather than

straightforward crowding-out,⁹ although the subgroup was too small for firm conclusions.

Profit margins told a more negative story than revenue alone. Nineteen of 38 classified responses (50%) reported compression, two more than the number of firms reporting a revenue decline. Some businesses may have held revenue by cutting prices, trading short-term customer retention for longer-term financial vulnerability, although the survey did not test this link directly. Angeli and Jaiswal's analysis of Hindustan Unilever versus Nirma showed that cost structure asymmetry between MNCs and local firms creates this kind of margin trap: local businesses that lack equivalent procurement scale cannot sustain price competition with MNCs indefinitely.¹⁰

Employment and adaptation

The employment results were the most counterintuitive in the dataset. Eighty-five percent of respondents maintained or grew their workforce. The 45% of respondents who had experienced MNC competition for three years or less may not yet have reached the employment adjustment point that sustained competitive pressure eventually forces. The demand data suggested another possible explanation: MNC-induced economic activity may have created complementary opportunities for local businesses that partly offset any displacement effect.

The two most commonly adopted strategies, customer service improvement (47.5%) and quality improvement (42.5%), reflected a competitive instinct that was theoretically coherent. Neither directly confronted MNCs on the dimensions where MNCs are structurally strongest: price, product range,

⁸ Brian J. Aitken and Ann E. Harrison, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela," *American Economic Review* 89, no. 3 (1999): 605–618, <https://doi.org/10.1257/aer.89.3.605>.

⁹ Beata K. Smarzynska, *Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages*, Policy Research Working Paper 2923

(World Bank, 2002), <https://documents1.worldbank.org/curated/en/196171468772455993/pdf/multi0page.pdf>.

¹⁰ Federica Angeli and Anand Kumar Jaiswal, "Competitive Dynamics between MNCs and Domestic Companies at the Base of the Pyramid: An Institutional Perspective," *Long Range Planning* 48, no. 3 (2015): 182–199, <https://doi.org/10.1016/j.lrp.2013.08.010>.



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logistics, and brand. Both emphasised dimensions where owner-managed, community-embedded local businesses hold inherent advantages.

Customer service was the most common adaptation strategy, which suggests that Vadodara's MSME operators relied on the personal trust and community knowledge that a local owner builds over years of operating in the same neighbourhood. MNCs may out-price, out-range, and out-brand local firms on many standardised dimensions, but they cannot easily replicate that relationship capital. This interpretation rests on the adaptation data alone and should be tested directly in future work.

Limitations

The primary survey covered 40 respondents. While this was sufficient for exploratory and descriptive research at the student level, it limits the statistical generalisability of the findings to the broader Vadodara MSME population. All primary data were based on respondents' own perceptions and recollections. Data were collected at a single point in time, capturing a snapshot of the situation rather than changes over several years. This makes it difficult to establish definitive cause-and-effect relationships between MNC entry and observed MSME outcomes.

Conclusion

MNC competition did not produce the uniform displacement often assumed at the national policy level. Revenue outcomes were split: 42.5% of businesses reported some decline, but 35% reported growth and 22.5% reported stability. Employment in Vadodara's MSME sector was more resilient than the conventional displacement narrative predicts, with 85% of surveyed businesses maintaining or growing their workforce. The dominant competitive responses, customer service improvement and quality investment, reflected a strategy of competing on dimensions that MNCs cannot easily replicate rather than confronting their pricing or logistical advantages directly.

The cross-sectional design captured a single point in time, so causal relationships between MNC competition and MSME outcomes cannot be established from the data alone. A longitudinal study tracking the same respondents over three to five years would reveal whether the adaptation strategies currently being deployed sustain competitive positions as MNC penetration deepens.

MATERIALS AND METHODS

This study adopted a mixed-methods, descriptive and analytical research design, combining quantitative and qualitative approaches to develop a broader understanding of the impact of MNCs on MSMEs in Vadodara. The quantitative component measured economic indicators such as changes in revenue, employment, and profit margins, while the qualitative component provided additional insight into the experiences, perceptions, and competitive challenges faced by local businesses.

Primary data formed the main basis of this study. A structured questionnaire containing 19 questions was designed to collect information from MSMEs across six key areas: business profile and ownership, MSME classification and employment, presence and entry of MNCs, financial impact on revenue and profit margins, changes in market and labour conditions, and strategies adopted by businesses in response to competition. The questionnaire was distributed online through Google Forms.

The target population consisted of MSME owners and senior managers operating businesses in Vadodara who were in a position to assess the competitive impact of MNCs in their respective markets. Since a complete and easily accessible list of all MSMEs operating in Vadodara was not available, the study used a non-probability sampling approach. A combination of purposive and convenience sampling was adopted. Businesses were selected based



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on their relevance to the study and their willingness and availability to participate.

Responses to each survey question were summarised using frequencies and percentages. Cross-tabulation was used to examine relationships between selected business characteristics and the impact of MNC competition. Due to the relatively limited sample size, these comparisons were used mainly to identify noticeable patterns rather than to establish statistically significant relationships. The open-ended responses were reviewed and grouped according to recurring ideas and recommendations.

Ethical considerations were taken into account throughout the study. Participation in the survey was voluntary, and respondents were not required to provide personal identifying information. The information collected was used only for academic and research purposes. The confidentiality of respondents and participating businesses was maintained throughout the study.

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Figures and Figure Titles/Captions

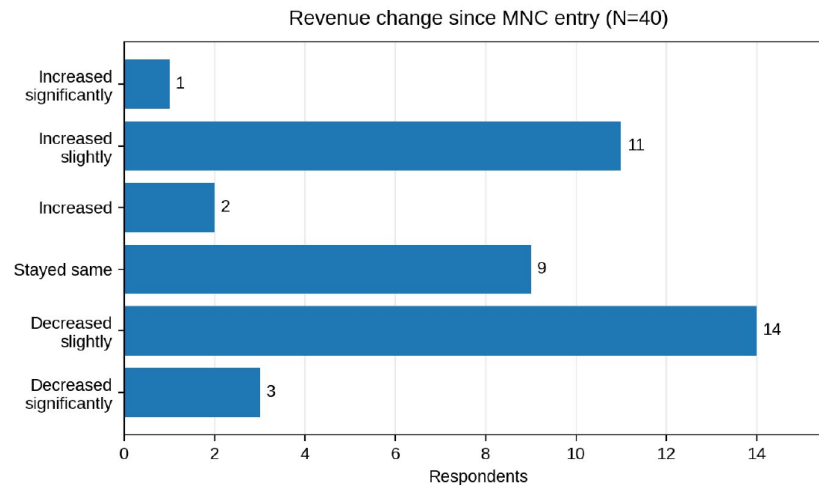


Figure 1. Revenue change since MNC entry (N=40). Seventeen firms (42.5%) reported a decline in revenue, 9 (22.5%) reported no change and 14 (35%) reported an increase. Data came from an online survey of MSME owners and managers; the two decrease options and the three increase options were each combined. Descriptive frequencies only; no statistical tests were applied. N=40 respondents.

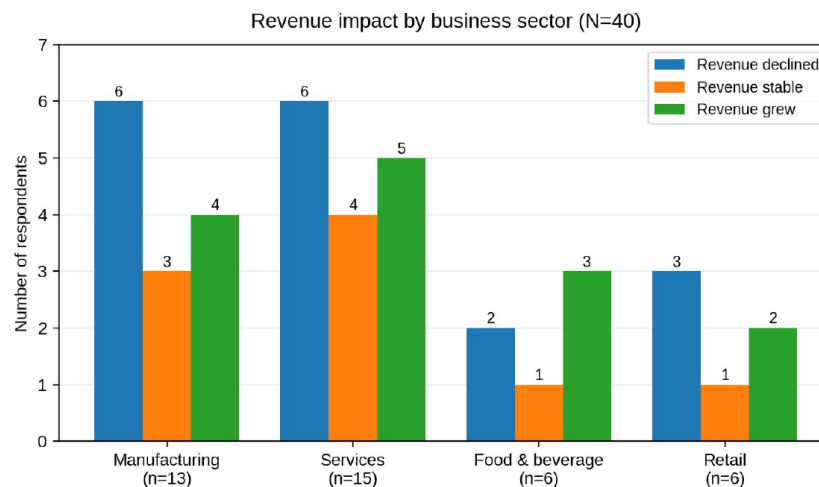


Figure 2. Revenue impact of MNC competition by business sector (N=40). Retail had the highest decline share (3 of 6 firms, 50%), while food and beverage had the highest growth share (3 of 6, 50%). Responses are cross-tabulated by business sector, with revenue categories grouped as in Figure 1. Subgroups were small (n=6 to 15), so the comparison is descriptive; no statistical tests were applied. N=40 respondents.

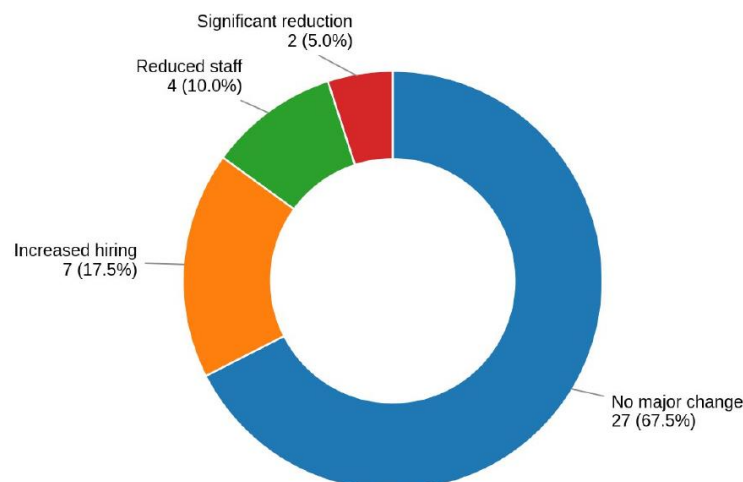


Figure 3. Effect of MNC competition on MSME employment (N=40). Twenty-seven firms (67.5%) reported no major change, 7 (17.5%) reported increased hiring, 4 (10%) reported reduced staff and 2 (5%) reported a significant reduction. Data came from a single survey question on the direct effect of MNC competition on staffing. Descriptive frequencies only; no statistical tests were applied. N=40 respondents.

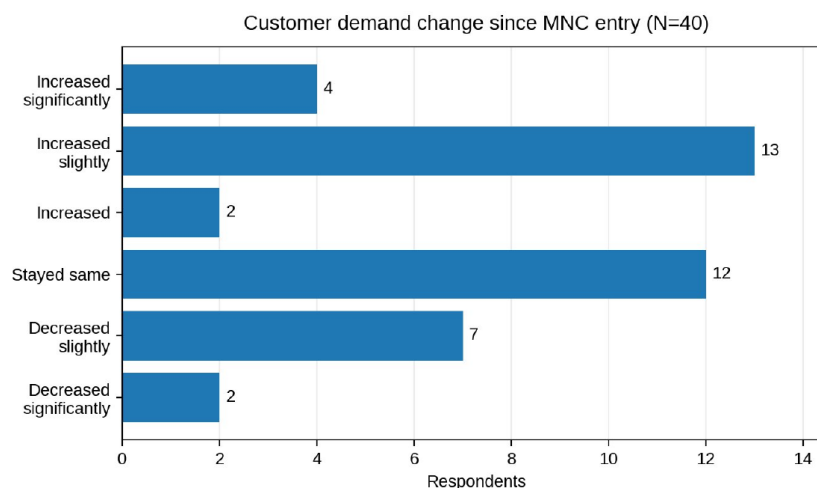


Figure 4. Customer demand change since MNC entry (N=40). Nineteen respondents (47.5%) reported increased demand, 12 (30%) reported no change and 9 (22.5%) reported decreased demand. Data came from an online survey of MSME owners and managers; increase and decrease options were each combined. Descriptive frequencies only; no statistical tests were applied. N=40 respondents.

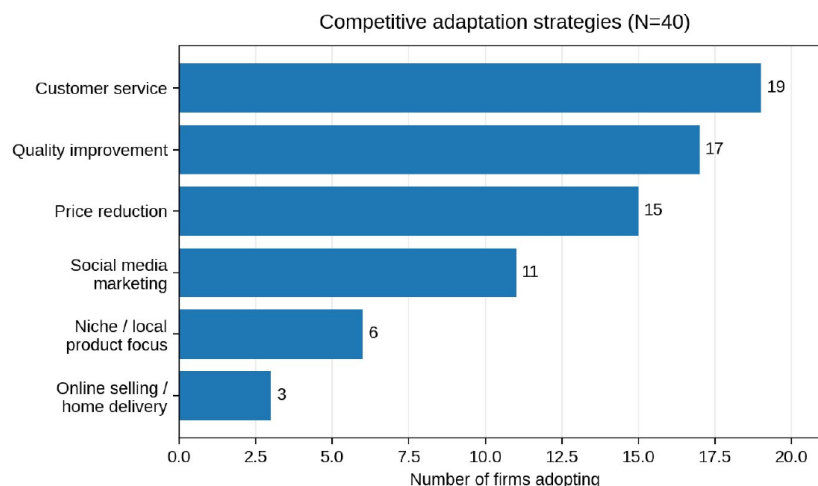


Figure 5. Competitive adaptation strategies adopted by MSMEs (N=40). Improved customer service was the most frequently reported action (19 firms; 47.5%), followed by quality improvement (17; 42.5%) and price reduction (15; 37.5%). Respondents could select more than one action, so percentages are of 40 respondents and do not sum to 100. No statistical tests were applied. N=40 respondents.

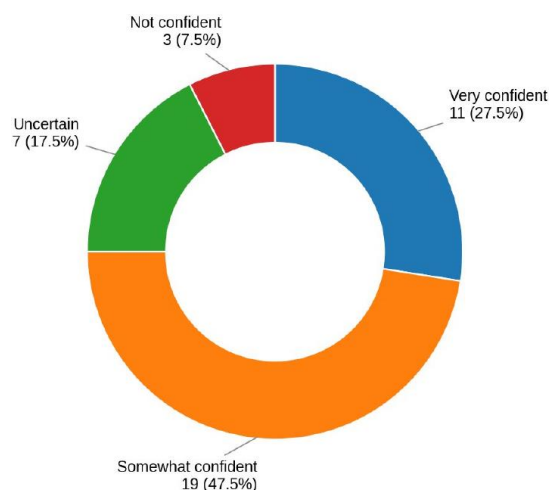


Figure 6. Confidence in business survival over the next five years (N=40). Eleven respondents (27.5%) were very confident and 19 (47.5%) were somewhat confident, so 75% expressed some confidence. Data came from a single survey question on self-assessed survival confidence. Descriptive frequencies only; no statistical tests were applied. N=40 respondents.

