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**Perception on Public Sector Bank Loan in the performance of MSMEs - A study on Purba Medinipur district**

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**Abstract**

*This research study is to provide a critical assessment of the debate on the effects of Public Sector Banks lending on the performance of micro, small and medium enterprises. The PSBs loan has been considered to be as life blood of any Enterprise for its important role in developing performance of the Enterprises. With this background, the number and the spread of PSBs loan in West Bengal continues to grow rapidly. A study of this nature is very important as it would provide the government with the needed information in designing a policy frame work to enhance the development of the MSME industry. This study has been employed a survey research design. Stratified simple random sampling has been used to select a sample size of 78 MSMEs from the district of Purba Medinipur. The research employed the use of questionnaires as instruments of data collection. Data collected through the questionnaire has been analyzed, summarized and interpreted accordingly with the multiple regression statistical techniques. The study confirms the positive contribution of PSB's loans towards performance of MSMEs. From the study, it has been recommended that the Govt. and Public sector bank keep it up with some new attractive policies for the new and upcoming MSMEs so that the Performance of MSMEs Sector will increase and side by side our National Income will be increased.*

**Keywords: Public Sector Banks, Loan, Financial Performance, Micro, small and medium enterprises.**

**Introduction**

In the developing country like India, the small scale industries play a pivotal role in the shaping of country's economy. In the last decade i.e., after the economic reforms in India, small scale industry sector has been the major contributor to India's GDP and has tremendous growth prospect, with a wide range of products the SSI sector has 40 per cent share in total industrial output and 35 per cent share in exports. The small scale industries in India alone contribute seven percent of country's GDP. It is also true that the small scale industry generates 80 per cent employment. Micro, Small and Medium Enterprises (MSMEs) constitute the dominant form of business organization in the world and it is an integral component of industrial sector. The continuous support provided to the sector in the form of incentives, infrastructural facilities and other assistance in the Industrial Policy Resolution had facilitated the sector to acquire a place of prominence in the socio- economic development of the country. Whatever is the contribution of MSMEs in Indian socio-economic development, the MSMEs are facing a serious problems that is access of funds i.e., financial assistance from the financial institutions. MSMEs need both financial and non-financial support to enhance their productivity, profitability and growth. It is asserted that, access to financial and business development services is essential for growth and development of Micro and Small Enterprises. The Microfinance industry has become a major backbone in the sustenance and survival of MSMEs. Microfinance Institutions (MFIs), as part of their core business, provide credit to MSMEs. In addition to these financial services, PSBs also provide nonfinancial support

like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them. Apart from the PSBs, Public sector Banks have come into existence and they serve as important sources of finance for industrial projects. The growth of term lending institutions has met the needs of Micro, Small and Medium Enterprises (MSMEs) in full. A survey among the entrepreneurs in the SME industry has revealed that there is great reliance on credit as tool for business growth and profitability. However, most entrepreneurs asserted to the fact that they are faced with a challenge of inadequate capital in their businesses and this inhibits their growth. The Government of India, fully aware of the problems faced by Micro, Small and Medium Enterprises (MSMEs) in obtaining institutional credit, has formulated appropriate policies and programmed from time to time for augmenting the flow of credit to this sector. By keeping all those facts and figure in mind, an attempt has been made by the researcher through this research project to find out the effectiveness of the public sector Banks on the performance of MSMEs in West Bengal with special reference to Pubra Midnapore.

### Literature Review

**Storey** (April,1994), in his research study entitled “Understanding the Small Business Sector” revealed that overview of bank lending to Small and Medium sized Enterprises highlights a number of assumptions that underpin the higher objective risk in lending to Small firms, cost monitoring, competing banks, the variability of Entrepreneurs with regard to their ability, honesty and motivation, and the view that entrepreneurs gain from increased project valuation while banks gain only from repayment.

**Mester. L** (September,1997), in his article titled “What is the point of Credit Scoring?” indicated that banks discovered that business owner characteristics rather than business characteristics are better predictors of commercial business loan performance.

**Cole. R. A** (January,1998), in his article titled “The Importance of Relationships to the Availability of Credit” revealed that potential lenders are more likely to extend credit to Small and Medium sized Enterprises in the presence of pre-existing transactions avoiding interest of micro industries.

**Stephanou Constantinous and Rodriguez Camila (January,2008)**, in their article titled “Bank Financing to Small and Medium Sized Enterprises (SMEs) in Columbia” have attempted to analyze the trends and policy challenges in the financing of Small and Medium Sized Enterprises by banks in Columbia. Based on collected data and interviews the authors observed Bank financing to Small and Medium Sized enterprises is becoming a strategic segment for Colombian credit institution. Important institutional and policy constraints to Small and Medium Sized Enterprises lending remain but are not yet binding.

**Sundar.K, Kumar Gandhi.R and Gangatharan .G** (May,2002), in their article titled “The Role of SIDBI in Financing SSIs” have concluded that the role of SIDBI in providing financial assistance is generally commendable both in terms of number of schemes sanctioned and the quantum of loans disburses from 1991-1998. The performance of the bank in providing promotional and development assistance to diverse credit requirements of small scale units is not so impressive.

**Anitha.H.S. (March,2003)**, in her study titled “Financial Role of Specialized Commercial Banks – From Entrepreneurs Perspective” has concluded that insufficient lending by the specialized commercial banks in the state has forced the small enterprises to relay on multiple agencies to meet their term loan requirements. Moreover, the banks lack commitment regarding the working capital side of small scale industries. Banks should come forward to consider the opinions of entrepreneurs who facilitate the development of entrepreneurship among the poor and weaker sections of the society.

**Rahmat and Maulana (2006)** researched on the Impact of Microfinance to Micro and Small Enterprise’s Performance Indonesia. Results of the study indicated that Microfinance has positive impact to improvement of MSE’s performance. The recommendation was that it is very important to allocate the loan to the productive activities, such as investment, in a way that improves the business opportunity.

**Aol, K. (2008)** in his research paper on the role of microfinance in fostering women entrepreneurship in Kenya assessed the impact of Microfinance funding on women entrepreneurship in Kenya who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans from KREP.

**Ojo, O. (2009)** in his research on the role of micro finance in entrepreneurship development, found Microfinance is sustainable to the development of entrepreneurship activities in Nigeria and that Microfinance has affected entrepreneurship in the country favorably having a positive relationship with the Nigerian economy represented by expanded GDP. Recommendation was that the financial institutions need to put more effort in financing MSEs, their role need to be felt by the MSEs in terms of growth and development.

#### **Objectives of the Study**

1. To determine the effect of PSBs loan on Performance of MSME enterprises.
2. To explore the factors influencing the perception of the entrepreneurs on the Financial Performance.

#### **Research Methodology**

The present research study intends to capture the effectiveness of the public sector banks’ loan on the financial performance of MSMEs. In the research two source has been considered for collecting data for this study: namely primary data source and secondary data source. As part of secondary sources data has been drawn from literature review, focused text, governmental files and even some institutional files.

The primary data has been gathered through field survey using a research questionnaire. The present study covered a total of 359 MSMEs Enterprises registered in 2010-11 at DIC of Purba Medinipur. In the nutshell, 78 MSMEs have been considered as the potential respondents for this study. The researcher used Yamane’s formula to determine the actual no of respondents in this study. The sample size was computed as shown by the formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population, e is the level of precision (Yamane 1967).

The researcher used simple random sampling techniques to select the potential respondents for this study. A survey questionnaire was used to collect primary data from the entrepreneurs in the MSMEs sector. The questionnaire was designed to elicit responses relating to how much the MSMEs entrepreneurs are using the PSBs loan fund for improvement of financial performance of their Business. Perceptual responses were captured using five-point-Likert scale. Perceptual performance measures has been preferred for this study because actual financial data on the majority of the sampled micro enterprises were likely to be publicly unavailable, making it difficult to check the accuracy of any financial data reported. The Likert scale was also preferred as it is able to deal with large number of items and difficulties in eliciting specific information from the respondents. Multiple linear regression analysis has been used to establish the relationship between PSB's Loan services (independent variables) and performance of micro enterprise (dependent variable). Also it has been used to find out the relationship between the mean Perception (dependent variable) score and the group of MSMEs entrepreneurs (independent variable).

**DATA ANALYSIS & INTERPRETATIONS**

**Reliability Analysis:**

**Table 1: Reliability Statistics**

Cronbach's Alpha	N of Items
.944	20

**Table 2: Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q1.PSBs loan fund is used by neighbours for their economic growth	71.5128	86.539	.711	.941
Q2. The capital is very much useful for desired individual purpose and venture	71.5000	87.786	.775	.940
Q3.Required numbers of PSBs are available to provide this loan	71.6026	88.606	.683	.941
Q4. Terms and conditions are to monitor development economic	71.4103	87.206	.705	.941
Q5. Earlier taken loan from this source and it had been extremely satisfactory.	71.4487	86.251	.783	.940
Q6. The loan schemes of such banks are reasonable and affordable.	71.3974	87.074	.723	.941

Q7. The purpose of this fund is for growth of people in general and it is encouraged by Bank authorities.	71.4487	88.095	.675	.941
Q8. Strategic viability of venture plays a strategic role for individual development	71.5769	88.377	.572	.943
Q9. Terms and conditions are transparent and reasonable	71.3590	87.818	.709	.941
Q10. The net return that generated as surplus was very much upto expectation.	71.4872	86.253	.764	.940
Q11. Several people in this locality who could not get money from other source used these money for their growth.	71.4744	88.564	.587	.943
Q12. PSBs play a very significant role with helping attitude	71.5256	88.798	.670	.942
Q13. Living habit is steadily and favorably developing	71.5897	86.920	.603	.943
Q14. Since the terms and conditions are soft and pro-people need. People mostly comply with these.	71.5641	88.846	.513	.944
Q15. PSBs loan fund has been used by me earlier satisfactorily	71.4872	87.812	.607	.943
Q16. People in this locality use this source of fund and are benefited	71.5385	88.667	.592	.943
Q17. People in large number use this fund in this locality for economic growth	71.4487	88.588	.705	.941
Q18. Role of PSBs issued personal loan in economic growth of Society	71.5256	88.356	.603	.943
Q19. Strategic viability of venture gives the scope of strategic development	71.5256	88.019	.581	.943
Q20. Because of perceived satisfaction more and more people full interest and take loan from this source.	71.4487	86.900	.710	.941

A reliability of the questionnaire was one of the primary concerns to any study. According to (Cronbach, 1984), the evaluation of any questionnaire reliability that is internal consistency is possible by calculating Cronbach's alpha. The reliability analysis for the present Study data has got the Cronbach's Alpha result of .944. The value of Cronbach's Alpha =.944 certainly lies in the region indicated by (Kline, 1999) as "excellent" (since  $\alpha > 0.9$  is Excellent). So the result signifies that the structured questionnaire used in this study probably indicates very good reliability. And with this I have also checked the Cronbach's Alpha if any item is deleted. In table 2 all the cases the Cronbach's Alpha has got excellent score. So from the above table, we've depicted that this Cronbach's Alpha result acceptable & accordingly we have conducted the further analysis.

**Factor Analysis**

**KMO and Bartlett's Test**

The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a indicator that specifies the proportion of variance in the variables of a particular study that might be affected by underlying factors. High values (i.e. close to 1.0) generally specify that a factor analysis may be suitable for the data collected and if the value observed is less than 0.50, the results of the factor analysis probably won't be of much use for the researcher. Kaiser (1974) has recommended that a bare minimum of 0.5 is acceptable and Hutcheson & Sofroniou, (1999) has denoted that values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. For this set of data, after doing KMO analysis it has been found that the value is 0.864 (Table. 3), which falls into the range of being “great”, so it can be conveniently inferred that the sample size is adequate for factor analysis.

Bartlett's test of Sphericity assesses the hypothesis that the correlation matrix is an identity matrix; i.e. all diagonal elements are 1 and all off-diagonal elements are 0, which suggests that all of the variables are uncorrelated. If the Sig. value for this test is less than the alpha level (i.e less than 0.05), it can be suggested to discard the null hypothesis that the population matrix is an identity matrix. For factor analysis to work some relationship is required between variables and if the R-matrix is an identity matrix then all correlation coefficients would be zero. Therefore, it is important for this test to be significant (i.e. have a significance value less than .05). A significant test denotes that if the R-matrix is not an identity matrix; therefore, there are some relationships between the variables that can be included in the analysis. For this data set, Bartlett's test is highly significant ( $p < .001$ ), and therefore factor analysis is appropriate. The Sig. value for this present study has come .000 (Table.3) which is less than 0.05 as a result this value analysed points towards rejecting the null hypothesis and determine that there are correlations in the data set that are apposite for factor analysis. This study expediently meets this requirement.

**Table 3: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.864
Bartlett's Test of Sphericity	Approx. Chi-Square	1262.286
	df	190
	Sig.	.000

**Principal Component Analysis:**

Descriptive statistics is a statistical tool to quantitatively assign the main features of a congregation of information or sometimes the quantitative description itself. Descriptive statistics intend to concentrate a sample, rather than using the data to learn about the population that the sample of data is generally assumed to signify. Some frequently used methods of descriptive statistics to analyse a data set are: the measures of central tendency (Mean, Median and Mode) and measures of variability (Standard Deviation). The minimum and maximum values of the variables, kurtosis and skewness. The standard deviation is a measure of the spread of average variability within a set of data analysed in the same units of measurement as the original data. In this study the highest and lowest range of Mean is 3.8974 and 3.6538 respectively. The data nearest to the mean value is considered to be good. While the highest and the lowest range of standard deviation is 0.77807 and 0.60426 respectively. The values having lowest

standard deviation are considered to be good. So it can be referred from Table.3 that the present of public Sector Banks' loans are good at performance of MSMEs.

**Table 4: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Q1	78	1.00	5.00	3.7436	.74617
Q2	78	2.00	5.00	3.7564	.60701
Q3	78	2.00	5.00	3.6538	.62058
Q4	78	2.00	5.00	3.8462	.70392
Q5	78	2.00	5.00	3.8077	.70357
Q6	78	1.00	5.00	3.8590	.69739
Q7	78	2.00	5.00	3.8077	.66563
Q8	78	1.00	5.00	3.6795	.74718
Q9	78	2.00	5.00	3.8974	.65643
Q10	78	2.00	5.00	3.7692	.71936
Q11	78	2.00	5.00	3.7821	.71437
Q12	78	2.00	5.00	3.7308	.61735
Q13	78	1.00	5.00	3.6667	.83225
Q14	78	1.00	5.00	3.6923	.77807
Q15	78	2.00	5.00	3.7692	.75461
Q16	78	2.00	5.00	3.7179	.70060
Q17	78	2.00	5.00	3.8077	.60426
Q18	78	2.00	5.00	3.7308	.71483
Q19	78	1.00	5.00	3.7308	.76741
Q20	78	1.00	5.00	3.8077	.72179
Valid N (listwise)	78				

In Table 5, Community is the extent to which an item correlates with all other items present in the questionnaire. The Communalities are the guesstimates of that part of the variability in each variable that is shared with others, and which is not. The higher score of the communalities are better. If the communalities extraction values of a variable are low (i.e. less than 0.4), then that variable may clash to load considerably on any factor. In the below table (Table.5) all of the extracted Communalities are acceptable (since the entire values extracted are greater than 0.559 and lie between the ranges of 0.559 to 0.886) and all variables are fit for the factor solution as their extraction values are large and satisfactory. After Extraction Method in Principal Component analysis (Table.5) it has been found that the four factors in the initial solution have an Eigen values over 1 and the total variance explained by these four factors is 73.783 justify the perception concerning the uses of PSBs loan in the business of MSME. As per the Kaiser Criterion, only those factors ensuring Eigen Value greater than 1 should be used in further analysis.

In this study out of two common orthogonal techniques (Quartimax and Varimax rotation), Varimax rotation with Kaiser Normalization rotation method has been used. After Evaluating the Total Variance Explained (Table.5) it can be found that out of 20 variables 19 variables stated in the questionnaire can be grouped under four factors.

**Table 5: Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Communalities Extraction
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	
1	9.975	49.876	49.876	9.975	49.876	49.876	.685
2	2.242	11.210	61.085	2.242	11.210	61.085	.734
3	1.371	6.857	67.943	1.371	6.857	67.943	.886
4	1.168	5.840	73.783	1.168	5.840	73.783	.795
5	.834	4.172	77.955				.831
6	.700	3.498	81.452				.618
7	.577	2.884	84.337				.559
8	.512	2.562	86.898				.843
9	.449	2.244	89.143				.825
10	.345	1.723	90.866				.783
11	.319	1.596	92.462				.671
12	.280	1.398	93.860				.578
13	.251	1.255	95.116				.795
14	.219	1.094	96.209				.690
15	.193	.963	97.172				.807
16	.165	.827	97.999				.702
17	.132	.658	98.656				.671
18	.120	.599	99.255				.724
19	.081	.403	99.659				.754
20	.068	.341	100.000				.806

Extraction Method: Principal Component Analysis.

**Table 6: Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
Q16 People in this locality use this source of fund and are benefited	.789			
Q11 Several people in this locality who could not get money from other source used these money for their growth.	.785			
Q17 People in large number use this fund in this locality for economic growth	.691			
Q1 PSBs loan fund is used by neighbours for their economic growth	.671			
Q12 PSBs play a very significant role with helping attitude	.613			
Q2 The capital is very much useful for desired individual purpose and venture	.605			



Q6 The loan schemes of such banks are reasonable and affordable.	.604			
Q15 PSBs loan fund has been used by me earlier satisfactorily		.859		
Q20 Because of perceived satisfaction more and more people full interest and take loan from this source.		.805		
Q5 PSBs loan fund is very much dependable and reliable.		.748		
Q10 The net return that generated as surplus was very much upto expectation.		.715		
Q7 The purpose of this fund is for growth of people in general and it is encouraged by Bank authorities.				
Q8 Strategic viability of venture plays a strategic role for individual development			.886	
Q3 Required numbers of PSBs are available to provide this loan			.860	
Q13 Living habit is steadily and favorably developing			.834	
Q18 Role of PSBs issued personal loan in economic growth of Society			.782	
Q19 Strategic viability of venture gives the scope of strategic development				.824
Q9 Terms and conditions are transparent and reasonable				.802
Q14 Since the terms and conditions are soft and pro-people need. People mostly comply with these.				.791
Q4 Terms and conditions are to monitor development economic				.780

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

The Factor Analysis made so far by using IBM SPSS Statistics 22 helps to extract four factors namely:

- a) Uses of PSBs Loan
- b) Satisfactory level by using PSBs Loan
- c) Development of PSBs Loan
- d) Terms and Conditions of PSBs Loan

### Regression Analysis for the Study

The main purpose of this study was to determine the effect of PSBs loan on Performance of MSME enterprises. Multiple regression analysis has been used to test the hypotheses. It was therefore necessary to examine the influence of each service while holding others constant. First, the regression model has run to examine the strength of the proposed model. Results of the model summary presented in Table 7 reveal that PSBs Loan account for up to 75.5% of the variance in overall satisfaction of MSME entrepreneurs ( $R^2=0.755$ ). Besides, the Durbin-Watson statistic (1.888) indicates that the model residuals are uncorrelated. The model was therefore found to be quite powerful in predicting overall satisfaction of MSME entrepreneurs.

**Regression Analysis**

Table 7: Model Summary <sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.869a	.755	.742	.21105	.755	56.373	4	73	.000	1.888

a. Predictors: (Constant), Uses of PSBs Loan, Satisfactory level by using PSBs Loan, Development of PSBs Loan, Terms and Conditions of PSBs Loan

b. Dependent Variable: Overall Satisfaction of MSME entrepreneurs

Source: Survey Data

ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.043	4	2.511	56.373	.000b
	Residual	3.251	73	.045		
	Total	13.295	77			

b. Dependent Variable: Overall Satisfaction of MSME entrepreneurs

a. Predictors: (Constant), Uses of PSBs Loan, Satisfactory level on using PSBs Loan, Development of PSBs Loan, Terms and Conditions of PSBs Loan

Source: Survey Data

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1(Constant)	2.782	.024		116.422	.000		
Uses of PSBs Loan	.123	.031	.296	3.993	.000	.610	1.638
Satisfactory level on using PSBs Loan	.086	.028	.206	3.025	.003	.721	1.387
Development of PSBs Loan	.123	.030	.295	4.093	.000	.645	1.549
Terms and Conditions of PSBs Loan	-.135	.031	-.325	-4.345	.000	.600	1.668

a. Dependent Variable: Overall Satisfaction Score of MSME entrepreneurs

Source: Survey Data

The implication of these results is that loan services have a positive effect on satisfaction of MSME Entrepreneurs with the performance of their Business. The standardized coefficient  $\beta=0.296$  reveals that an increase of 1 standard deviation in uses of loan services has the potential to increase overall satisfaction by 0.296 standard deviations. Consequently, loans offered by Public Sector Banks facilities could be responsible for the observed improvement in performance of MSMEs in the district of Purba Medinipur.

### Study Model

The study therefore established that performance of MSME is a function Public Sector Banks loan facilities that include uses of loans, satisfactory level using loan, development of Public Sector Banks loan, Terms and Conditions of these banks. The researcher therefore suggested the following multiple regression model for prediction of performance of MSMEs in the district of Purba Medinipur.

**Performance of MSMEs = .296 Uses of PSBs Loan + 0.206 Satisfactory level on using PSBs Loan + 0.295 Development of PSBs Loan + 0.325 Terms and Conditions of PSBs Loan**

\*Significance at 1% level of significance.

### Conclusion:

In the nutshell, the researcher can say that the PSBs loan fund is an important issue for the performance the MSMEs for the societal as well as economic development. The researcher has found that the three important factors which have positive impact on the performance of MSMEs are Uses of PSBs Loan, Satisfactory level on using PSBs Loan and Development of PSBs Loan. And researcher also found that the fourth factor Terms and Conditions of PSBs Loan has negative impact. However, the researcher concluded that the Govt. as well as the public sector bank enhancing their hand to the MSMEs for the continuous and ultimate growth of in our society and a special look on terms and conditions by giving extra facility to the MSME entrepreneurs. So, there will be enough possibility of the growth of MSMEs if the Govt. and Public sector bank keep it up with some new attractive policies for the new and upcoming MSMEs. After all we should remind that the MSMEs are the leg of development of a country.

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