Financial institutions have not assisted in the development and growth of small and medium scale industries in India

A study on SME industries in Uttar Pradesh region

Dublin Business School
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Declaration

I declare that all the work contained in this dissertation is entirely my own, except where appropriately referenced to the originating source, and referenced in the bibliography section.

No part of this work has previously been submitted in support of any application for an academic qualification at Dublin Business School or any other academic institution.

Signed: Joise Mole Lukose

Date: 23rd May 2014
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Abstract

Small and Medium Enterprises are the driving force for the promotion of an economy. Due to its significance, all the countries either, developed or developing, are concentrating on the development of SME’s. It is admitted fact that encouraging entrepreneurship is a key to improve competitiveness, boost trade volume, fostering economic activities and creation of job opportunities. Small enterprises are considered as main driver for innovation, poverty reduction, employment generation and social integration. Moreover, Access to finance is necessary to create an economic environment that enables SMEs to grow and prosper. The purpose of the study was to evaluate the extent of SME financing by commercial banks, micro financial institutions and credit unions in India. And it was hypothesized that there is a positive relationship between Institutional finance and SME growth. The study adopted a positivist (quantitative paradigm) with a cross sectional design. The findings in respect of the main purpose of the study indicated that a financial institution makes significant contribution to the growth and development of SMEs. Most of the findings proves that the SME owner’s perception towards lending still remain as an issue. This study finds it as one of major reason for the lack of credit demand. So this study also aims to shed some light on the importance of entrepreneurial training, mutual loan guarantee schemes and also the effective implementation and monitoring of government measures in SME lending.
Chapter - 1

INTRODUCTION

1.1 Background:

The worldwide experience proves the special role and the prominence of small and medium enterprises within the national economies. These are considered to be one of the main engines of growth and employment. Industrial development earlier believed to occur with large enterprises undertaking large investments and creating scale economies. Joseph Schumpeter (1942) argued both sides of the case. In 1909 he said that small companies were more inventive. In 1942 he reversed himself. Big firms have more incentive to invest in new products, because they can sell them to more people and reap greater rewards more quickly. In a competitive market, inventions are quickly imitated, so a small inventor’s investment often fails to pay off. But on the contrary, SMEs share of output and employment historically tended to rise gradually, the historical pattern appears to have changed as the large firm share has levelled off or fallen in many countries, especially in terms of employment. Now the Small and medium-sized enterprises reflected to be one of the major driving forces in economic growth. They motivate private ownership and entrepreneurial talents. More generally the SMEs in developing markets depend on more labor-intensive production practices than large enterprises, improving employment and leading to more equitable income distribution (Luetkenhorst, 2004)

However, India like other countries, SMEs play a vital role in the process of industrial development and economic growth by considerably contributing to employment creation, income generation and catalyzing growth in urban and rural areas (Shambhu Ghatak 2010 p.3). With an impressive history of small firm development policy, in post-Independence India SMEs dominate the industrial scenario through its contribution to generation of employment and income as also tackling the problem of regional disparities (Keshab Das 2008). The performance of SMEs in India though impressive comes next to china where this sector provides employment
to 94 million people with a network of 37 million units (Prof. H.L. Nagara Murthy 2012). Despite its commendable contribution to the nation’s economy, SME sector does not get the required support from the concerned banks, financial institutions, government departments and other corporate, which is a handicap in becoming more competitive in the National and International markets. The countries small and medium enterprises sector is severely underfinanced. Traditional lending in India is also largely collateral based, relying on security value rather than business fundamentals as the basis for lending decisions (Simmi Sareen 2012). To empower the SME sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the SMEs, educate and empower them to make optimum utilization of the resources, both finance and economic to achieve success (Vepa Kamesam 2003).

Therefore, the major concern of this study was focused solely on assessing the financial problems that are being faced by Indian SMEs and came out with the proposed strategies for improvements in the area of government, financial institutions as well as identifying some of the gaps in the existing knowledge related to finance in small enterprise development. For the purpose of this study, samples are taken from Uttar Pradesh a state located in Northern India, representing 16.4% of India’s population. The region is made up of 17 divisions of policymaking districts and it provides employment opportunities to nearly one-third of the state’s total labor force in its small medium scale industries including textiles and sugar-refining. The SME sector accounts for almost 60% of the total industrial output in Uttar Pradesh. The state has over 31 lakh SME units at present, according to the latest census (2006-2007). Out of these, 87,522 units are registered. An ASSOCHAM survey reports that Uttar Pradesh has emerged as the third leading state in facilitating growth in the small and medium enterprises sector. The survey indicates over 30,000 jobs were generated in UP in the SME sector between 2011 and 2013. So the small and medium scale industries constitute an important segment of the UP economy in terms of employment generation and as a source of foreign exchange earnings through exports.

1.2 Aim and overall research questions

Small and Medium Enterprises (SMEs) play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However despite their importance to the economy, most
SMEs are not able to stand up to the challenges of globalization, mainly because of difficulties in the area of financing. With the opening up of the Indian economy, it has become necessary to consider measures of smoothening the flow of credit to this sector. (Y. Sreenivas 2005)

But on the contrary, it is often supposed that many entrepreneurs or SMEs that do not currently have access to funds would have the capability to use those funds productively if the funds were available; but many studies revealed due to many reasons the financial system does not provide finance to SMEs. So it is very important to ascertain whether Indian SMEs are getting adequate amount of lending from financial institutions.

This objective lead to the first research question (RQ 1):

Whether or not financial institutions are providing adequate credits to SMEs?

The provision of finance to the Small and Medium Enterprise (SME) segment is a topic of crucial policy importance. To cure the overall disease of lack of appropriate growth of Indian SMEs – Small and Medium Enterprises, India needs several strong remedies such as adequate credit delivery to SMEs, better risk management, technological up gradation of Banks, and attitudinal change in Bankers and so on. Among them, the major problem of inadequate financing to SMEs needs an urgent attention (Tarak Shah & Anshu Khedkar, 2006). This study is therefore, important on providing empirical evidence about the problems faced by the small and medium enterprises. So the rational for the following question is to assess the financial based problems facing small and medium enterprises in India

Research question (RQ 2):

What are the problems encountered by the Small and Medium industrialists in obtaining finance from financial institutions in India?

The next research question is designed to evaluate the role and effectiveness of financial institutions in solving problems that are being faced by the small and medium sized firms in accessing finance.

Research question (RQ 3): What is the effectiveness of these financial organizations in solving the problems that are being faced by SME owners in India?

In order to fulfill the above mentioned aims and to answer the above three questions, one must have a correct balance between the existing theories (the conceptual approach) and the testing of
hypothesis. This study aims to propose a conceptual framework for solving the problems and analyzing data’s to answer proposed research questions and proposed hypothesis.

1.3 **Interest and suitability of the researcher**

Saunders et al. (2007) proposes that the dissertation topic must be something researcher is capable of undertaking and one that the researcher feels excitement and enthusiasm for, as well as having the necessary competency to complete. Being a student of finance, the researcher has a special interest in studying SME finance. Through a detailed and deep research, the researcher has developed a keen interest in understanding how these small businesses actually affect our economy. The growth of SMEs have been said to combine the strategies of poverty alleviation and industrialization into a unique package that is beneficial not only to entrepreneurs but to the country at large. If these are providing plenty of benefits, then the question remains to be answered is: why SMEs are still continue to face challenges in getting institutional finance? So, the researcher realized the potential and opportunity for this topic to be explored.

As a person who would love to become an entrepreneur in future, Researcher believes that the knowledge gained from this research would not only help her better understand the status of SMEs in India but would also train the researcher in strategizing when she intend to start up.

1.4 **Recipients of research:**

There are four main recipients to this research which is carried out as a part of the Master of Business Administration in Finance in Dublin Business School. They are as follows

1. The first and foremost recipient to this research is Dublin Business School where the researcher is currently pursuing his MBA in Finance.
2. The second recipient to this research is Liverpool John Moore’s University, who will award the researcher for her Master’s programme.
3. The third recipient to this research is Mr. Michael Kealy who is the supervisor for the researcher and guided her throughout the thesis.
4. The fourth recipient group to this research includes the Indian SMEs, related financial institutions and the concerned policy makers.

1.5 Major contribution of the study

The main aim of this study is to provide valuable contribution for the development and success of the SMEs in India. First of all; research that has been submitted in this area is limited. A vast number of studies are available in the issue of microfinance assistance to SMEs but not considering other financial institutions. Remaining some were ignored the financial problems of small scale industries for which has a life time of less than 5 years. Based on the available evidence researcher attempted a modest approach to fill the knowledge gap of existing studies. And also she believes that this study would be very helpful for other research scholars and professionals who are gathering data’s regarding this topic

1.6 Research Limitations

To cover all the regions in the entire country was impossible because of the limited time frame and amount of funds for this research. For this reason, the research will be covering Uttar Pradesh, one of the states located in Northern India. The choice of this region is due to the fact that it is the third leading state to facilitate growth in SME sector (Associated Chambers of Commerce and Industry of India 2013). Researcher believes that this will provide good source of data for the study. But this study focuses only on the small and medium sectors of the business. Micro scale enterprises are not included in the study. Another main limitation of this research is its chosen method of data collection, the foremost objective of quantitative research is to generalize. In every quantitative research, it may not be possible for the researcher to study the whole population of interest. So, the results may not produce fully reliable and accurate findings.
1.7 Organisation of the dissertation

Chapter 1: This chapter provided an overview of the background to the research problem. Along with this it also presents a brief outline of the main aim and objectives and also the recipient’s within which the research is being conducted.

Chapter 2: This chapter critically examines the existing theories & literatures related to SME financing. It first discusses the prevailing situations and problems of Indian SMEs and the role of respective financial institutions. Then it gives an international overview for the same by conducting an empirical study outside India.

Chapter 3: The main purpose of this chapter was to justify its methodological choices. It discussed the research philosophy, approach, and strategy, choice of data collection and analysis techniques that was used in conducting this research, whilst justifying the reason for the choice of methods.

Chapter 4: This chapter analyzed the findings of the research retrieved from questionnaires, and discussed as it relates to the findings of previous research conducted. In addition, it explained the answers to the research questions that are designed for this study.

Chapter 5: This chapter is concerned with the main Conclusions based on the above analysis and findings with reference to the objectives that were to be achieved. Recommendations were thus made to SMEs, financial institutions and also to policy makers.

Chapter 6: This chapter presents a self-reflective learning section comprised with researcher’s personal learning experiences and also the skills developed throughout the course of MBA and dissertation process

Chapter 7: It includes a bibliography section comprised with the sources of all materials referenced in this study.

Chapter 8: This chapter contains an appendix which gives detailed proofs of some concepts and theories including the research questionnaires used for this study.
2.1 Introduction

Small-scale industries have been given an significant place in the economy of both developing and developed countries. The economic growth achieved by many developing countries can be linked directly to the growth of this sector. In India the small-scale industrial sector has registered rapid growth. In view of the prominence of small-scale industrial sector, the growth and development has attracted a good deal of academic attention. It has been well-argued in the literature that the Indian SMEs play an important role in generating employment and income, particularly in the transition period. But the lack of access to institutional finance prevents adequate development of SMEs.

This chapter focuses conceptual definitions of financial institutions and small and medium enterprises (SMEs). The Literature review is also included the Critical Evaluation of the Theories Built on the FIs Growth and Success of SMEs, followed by a detailed research of empirical studies done within and out of India is reviewed. The chapter also highlights the problems affecting SMEs and suggests a potential way forward.

2.2 Theoretical Definitions

Entrepeneurs: are people undertaking economic risk to create a new organization that will apply new technology or innovative process to generate value to others (Schramm, 2006).

Financial Institutions (FIs): are businesses whose principal assets are financial assets or claims, stocks, bonds and loans instead of real assets such as buildings, equipment’s and raw materials (Saunders, 1994).

SMEs: There is no universally accepted single definition of SMEs as various bodies, organizations and institution have advanced different definitions (URT, 2003).
**Micro financial institution** is “an organization that offers financial services to the very poor.” (MIX, 2005)

**Commercial banks** are a financial institution based on trade funds, craft their basic as they act as an intermediary between capital and investments and with the investments seek access to private capital. (Daiff, Kirat Daiff, 2011)

**Access to finance**: is defined as getting adequate and affordable financing over a suitable timescale (Tagoe et. al. 2005).

**Pecking Order Theory (POT)**: Myers (1984), a firm is said to follow a pecking order if it prefers internal to external financing and debt to equity if external financing is used.

### 2.3 Critical Evaluation of the Theories Built on the FIs Growth and Success of SMEs

Development analysts and practitioners have long been interested in the contribution of development of the financial institutions, growth and success of SMEs. Among the first contributors to the theory is Joan Robinson (1952) who claims that “where enterprise leads finance follows means that finance does not cause growth but rather, it responds to demands from the real sector. But Robert Lucas (1988) dismisses finance as an “over-stressed” element of economic growth. On the other hand, Merton Miller (1988) argues “that the financial markets contribute to economic growth is a proposition too obvious for serious discussions.” Goldsmith (1969) and McKinnon (1973) all saw the significance of the finance growth in the process of understanding economic growth. Moreover, Thorsten Beck and Asli Demirguc-Kunt (2006) argued that undersized financial system intensifies the degree of market inadequacies in terms of imperfect information and transaction costs which stop firms to develop. And also makes firm financially constrained, for which it is composite or too expensive to get external finance and forced to limit its investment options, and hence its growth.

#### 2.3.1 The Hampering and Interactive Issues of FIs towards Success of SMEs

SMEs in emerging countries are assumed to be too instable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs to check the activities of the
SMEs are always high. Bhattacharya, *et al.* (1997) argue that formal financial institutions (banks) are unwilling to lend to SMEs since investing in SME activities is considered by banks to be very risky. Suresh Chandra Jain (2008) in his work evaluated the details to difficulties of institutional finance for small scale industries on the state of Uttar Pradesh. Another impediment factor according to (Otero *et al* 1994) banks also uses cash flows and profitability to measure the worthiness of a business. This is a very costly and, not a good technique to measure the credit strength of rural and peri-urban SMEs because in rural area production and distribution influenced by social factors that are often neglected by enterprises in emerging countries. Also another obstacle is interest rates charged by a financial (credit) institutions, it is seen as having a double role of sorting potential borrowers or SMEs (leading to adverse selection), and affecting the actions of borrowers or SME owners (leading to the incentive effect). Stiglitz and Weiss (1981), interest rates thus affect the nature of the transaction and do not necessarily clear the market.

Moreover, another impediment factor that prevents SMEs to get funding from external sources is the problems of imperfect information’s. This can be explained with reference to the theory of imperfect information in capital markets (Stiglitz and Weiss 1981). From the moneylender’s perspective (or supply side), banks have trouble in differentiating between good (high quality) and bad (low quality) loan aspirants. As a result banks are likely to implement more rigorous lending policies preferring those who are able to offer more collateral assets, or who have a more well-known credit record. In other words it leads to credit rationing.

On the demand side, as argued by Petersen and Rajan (1994), the quantity of information that banks could obtain is usually much less in the case of small firms, because banks have little evidences about these firms’ managerial capabilities and investment chances. The extent of credit rationing to small firms may also occur merely because they are not usually well-collateralized (Gertler and Gilchrist 1994).
2.3.2 Determinants of capital structure of SMEs

Credit obtainability to SMEs depends on the financial structures hence some essential aspects are to be considered when deciding on their financial structure. This was suggested by Myers (1977) who determined the capital structure of SMEs. The pecking order theory was used to describe why firms will choose a specific capital structure than the other. The POT argues that SMEs average debt ratio will differ from industry to industry because these industries have varied asset risks, asset type and the necessities for external capital Myers (1984). Firms in one industry will have certain aspects that are common to most than to firms in a different industry (Harris and Raviv, 1991). The decisions are made taking into consideration information asymmetry, agency theory, and the signaling theory (Deeds et al., 1997). The main notion behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997). The success of a business in the future is determined by the availability of information to the firm. (Janney and Folta, 2003). The outsiders get to know about a particular undertaking based on the signals it sends out. These signals need to be favorable because it is from it that potential investors will be informed and thus show the desire to invest in the venture. The cost of equity will be high when poor signals are noticed by outsiders and this will restrain potential investors. Firms get access to venture capital when they have a good goodwill (Prasad, Bruton and Vozikis, 2000). New businesses have difficulties in getting a favorable position in the market. Therefore the process of gaining steadiness and to survive makes the firm to gain acceptability and thus can be trusted as an effective business since it releases positive signals. Firms with scarce resources at the beginning stage are easy to go bankrupt and die in this initial stage this was claimed by Aldrich and Auster (1986); Freeman, Carroll and Hannan (1983).

Myers (1984) argued that external sources of funding have more moral hazard problems and subsequently the demand for own or internal finances are of supreme to the firm. This moral hazard is explained by the fact that SMEs are very close entities; that is possessed and or controlled by one person or few people.
2.3.3 Link between capital structure and financial institutions development

Capital structure demonstrates the optimal mix between debt and equity. There is the connection between financial institutions development and firms’ capital structure specially debt versus equity choices (Demirguc-Kunt and Maksimovic 1998). In this case financial development facilities affecting capital structure decisions through the reduction of the costs of external finance (Demirguc-Kunt and Maksimovic 2008; La Porta et al. 1997). Recent financial research (Degryse and Ongen 2005; Petersen and Rajan 2002) highlight the significance of the availability and pricing of bank loans. In particular, Petersen and Rajan (2002) document the importance of distance in the provision of bank credit to small firms, particularly in a country like India, where the problems of imperfect information are of crucial.

Review of Empirical Studies

2.4 Empirical Studies in India

2.4.1 Development of Financial Institutions

The last decade witnessed the maturity of India’s financial markets. Since 1991, every governments of India took main steps in reforming the financial sector of the country. The Finance Ministry constantly framed major policies in the field of financial sector of the country. The Reserve Bank of India (RBI) has become more autonomous. Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) became important institutions. The prime elements of the financial sector reform involved liberalization of interest rates, exclusion of administrative credit and foreign exchange distribution, strengthening of the RBI’s role in regulating and supervising financial institutions, rearrangement of state-owned financial institutions, and permitting entry of private banks both local and foreign. The number of bank offices in India extended nearly eight-fold from 8,262 in June 1969 to 64,939 in March 1999 (Singh Nagendra: 2000)
In spite of the propagation of banking institutions and the extensive range of banking products and services, it seems very little care has been paid to help SMEs’ capital enhancement and growth (Retnakar Gedans 2000). But the evidence showed the formal financial institutions find it hard to deal with SMEs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Himachalam.D 2000). Due to this, small businesses face a discouraging obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system (Ramakrishna K.T 2001). According to the Indian government survey, on the financing sources to small businesses found that only 90% of the total Micro units in India obtain funds from friends, lenders and private lenders only. It is clear that in India to obtain timely and adequate finance at the agreeable conditions is a tedious and burdensome exercise for both established as well as potential SMEs

### 2.4.2 The Role of Financial Institutions in Financing SMEs in India

#### 2.4.2.1 Commercial Banks

In India commercial banks mainly deliver loans to SMEs at a low rate of interest. By March 2008, loans of public sector banks amounting to R.s 148651 crore (€1,758.54) were outstanding against these industries (TR Jain & OP Khanna 2010 pg.232). In India the main commercial banks helping SMEs include ICICI bank in India, State Bank in India, Bank of Baroda, Andhra bank, IDBI, HDFC etc. These banks have the most open orientation towards micro finance (Harper 2005 p.2).

Commercial banks are the primary institutions having a widespread system of branches, commanding utmost public confidence and having lion’s segment in the entire banking operations (B. Nagarjuna and Kavitha Vani 2013). In this research he argues that bankers are reluctant to lend to SMEs and also the approach followed by banks to funding is very restrictive.
In any loan application for a business, banks are demanding huge requirements. Therefore it is not always possible for a businessperson to satisfy all requirements and conditions which the bank might pose.

On the contrary, Anupama Singh (2013) in a ‘study of Commercial Bank lending to SMEs in India’, argues that the Bank deals with funds of large depositors and they are required to return the money to the Depositors as and when it is demanded for. Banks are also responsible to guarantee return in the form of interest to the depositors. Therefore it becomes crucial for banks to monitor the loans and check that they do not turn bad. Therefore they have to follow the principles of credit management to evade the danger of non-recovery.

However it is clear that the access to finance through commercial banking system and other financial institutions are very important for the growth and development of SMEs. Therefore to help SME grow they need to reduce the barriers to the use of external finance by those SMEs that could benefit from it. This can be done by reducing the barriers to demand for finance from SMEs as well as increasing the supply of finance from banks and other financial systems.

2.4.2.3 Non-Government organization (NGO/MFIs)

According to section 25 of companies and Non-banking Financial companies Act 1956 Microfinance institutions in India exist as NGOs. These are small financial institutions lending credit to small and medium scale industries. A fresh study conducted by the government of India revealed that India is projected to have had around 3.3 million NGOs in 2013, just over one NGO per 400 Indians, and many times the number of primary schools and primary health centers in India. Micro finance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved into a vibrant industry exhibiting a variety of business models.
Muhammad Yunus, creator of the microcredit program and founder of the Grameen bank in Bangladesh, argues that the unique promise of microcredit was to lessen poverty by encouraging self-employment in low-income communities, an idea first promoted at mass scale in Bangladesh (Yunus 1999). But critics of Muhammad Yunus and the Bangladesh microcredit model claim that supporting small and medium enterprises or SMEs may instead generate more and better jobs for poor individuals (e.g., Karnani 2007, Dichter 2006).

The microfinance sector has passed its revolutionary phase, when the profit-oriented working model was perceived by the market as exceptionable. Also investors now have wider choice of MFIs with scalable process. Microfinance institutions serve as a supplement to banks and in some sense a better one too. But all this comes at a cost and the interest rates charged by these institutions are higher than commercial banks and vary widely from 10 to 30 percent (Ramakrushna Mahapatra 2012). While others feel that considering the cost of capital and the cost incurred in giving the service, the high interest rates are justified.

### 2.4.2.4 Credit unions

A credit union is a co-operative financial institution, which is owned and organized by its own members. Credit unions are exist to offer a safe, suitable place for its members to save money and get loans & other financial services at competitive rates. (Brett Fairbairn 1997 p.23). Co-operative banks in the form of credit union usually gives a varied range of banking and financial services like loans, F.D., R.D., saving, insurance to SMEs. Their main goal is to provide assistance and financial support for the rural area.

The preceding optimistic assessment has to be tempered with awareness of the constraints that cooperatives in developing countries like India face. These cooperatives are still held back by problems like over-regulation from governments and weak internal governance which can lead to lack of trust in their own elected officials (World Bank 2008). Despite of this, credit union plays an important role in the formation of Indian Small and Medium scale industries (Biz Arena 2011).
2.5 Small and Medium Enterprise sector in India

The MSME sector plays an important role in the Indian economy. A promoter for the socio-economic transformation of the country, the segment is critical in meeting the national goals of generating employment, reducing poverty, and discouraging rural-urban migration. These enterprises help to build a prosperous entrepreneurial eco-system, in addition to encouraging the use of indigenous technologies. The sector has displayed reliable growth over the last few years, but it has done so in a constrained environment often resulting in unproductive resource utilization. Of the many challenges hindering the growth and development of MSMEs, inadequate access to financial resources is one of the main bottlenecks that make these enterprises weak, particularly in periods of economic downturn.

According to the report of prime ministers task force (2013) “The major reason for this has been the high risk perception among the banks about this sector and the high transaction costs for loan appraisal”

Roopa Kundra, CEO Crisil (2013) foresees Indian SMES as “SME will be a very big growth engine in India and adequate measures like proper rating assigned to them which will aid them to get access to bank loans . Also she suggest that to manage, recognize, and alleviate the credit risks at the earlier stages can be useful for financial institutions in discovering possible defaults of the enterprise and reduce losses incurred by the financial institutions.

But it is evident that nurturing the SMEs in any country would have fruitful results on the income generation and employment in an economy. The degrees to which the SMEs can flourish by overcoming difficulties are important for the growth and development of the economy.
2.5.1 Defining the sector

According to the SME Times News Bureau (August 2012), “In India, SME definition is based not on number of employees but on amount of investment. Most Indian SMEs are labor-intensive and employ more than the prescribed workers as defined by European countries.” Although European Union offers huge fee concession to SMEs, but as the definitions of what creates an SME varies in India and Europe; most Indian SMEs do not fall under the SME category as defined by European countries.

Micro, small and medium enterprises as per MSME Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Investment Ceiling for Plant, Machinery or Equipment’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Manufacturing Enterprises</td>
<td>Service Enterprises</td>
</tr>
<tr>
<td>Up to Rs.25 lakh (€29,600)</td>
<td>Up to Rs.10 lakh (€11,840)</td>
</tr>
<tr>
<td>Small</td>
<td>Above Rs.25 lakh (€29,600) &amp; up to Rs.5 crore (€592,000)</td>
</tr>
<tr>
<td>---------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Medium</td>
<td>Above Rs.5 crore (€592,000) &amp; upto Rs.10 crore (€118,400)</td>
</tr>
</tbody>
</table>

Source: India, MSME Act 2006

2.5.2 Contribution of SME sector to Indian Economy

The SME sector acts as a catalyst in upholding and encouraging the creation of the innovative spirit and entrepreneurship in the economy. They account for a large share of industrial units, and contribute significantly to employment in the country (K.M. Rostagi, “Employment Generation through Small Scale Village and Cottage Industries in Madhya Pradesh”). Growing at 11.5 percent a year, the MSME sector has been performing better than the overall GDP (8 % growth p.a) and overall industrial output (RBI; MSME annual report, 2009-2010).

A growing body of work suggests that SMEs do not increase the quantity and quality of employment. First and foremost, Birch (1979) argued that small firms are predominantly significant in job creation .He reports that over the 1970s, businesses with less than 100 employees created eight out of ten new jobs in America. However, an extensive array of evidence rejects the view that small firms are the engines of job creation (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown Hamilton and Medoff, 1990).

Furthermore, Hallberg (2000) argued that "small firms have higher job creation and destruction rates than large enterprises and may offer lesser job security than large Firms." In India the destruction rate of Small and medium firms are near to 9-10% and recovery rate of these units are very small (only 6-7% of the sick units are revived). This data supports the dispute of Hallberg (2000) in regard to destruction of small firms.
Key Statistics on Economic Contribution of MSME

<table>
<thead>
<tr>
<th>Share of</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Units</td>
<td>95%</td>
</tr>
<tr>
<td>Industrial Outputs</td>
<td>45%</td>
</tr>
<tr>
<td>Exports (In value)</td>
<td>40%</td>
</tr>
<tr>
<td>Gross Domestic Product(GDP)</td>
<td>8%</td>
</tr>
<tr>
<td>Employment (in millions)</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Ministry of SME; India; Annual Report, 2013

2.5.3 Challenges of SMEs in India

Availability of Finance:

To obtain timely and adequate finance at the agreeable conditions is a tedious and cumbersome exercise for both established as well as growing SMEs. Evidence shows that 90% of the total Micro units in India acquire funds from friends, lenders and from private lenders (Rajib Lahiri 2008). As per Weaver and Pak, 1990; Kaleka and Katsikeas, 1995; Dicle and Dicle, 1992, Credit unworthiness and transaction costs are reported as major factors that reduce access to credit.

Access to Markets

The limited budgets constrain the SMEs to create market access through the Marketing and promotions. Internet has in fact rendered a positive role and impact on Indian SMES as it has opened new ventures and expanded the horizons for SMEs(SME world; Magazine Indian SMEs:2013)
Familiarity with prime technology

Lack of IT Support is big obstacle which hinders the SMEs in upgrading themselves to compete the global and domestic markets. It is costly affair and SMEs are uninformed of the latest soft wares and up gradations (D&B research 2013)

Absence of proper Infrastructure

This contains good means of transport, adequate electricity, and proper Location of the SME setup. According to the study organized by India MART knowledge service (2013) 71.43% of SMEs finds lack of physical infrastructure as the main threat.

Lack of knowledge of foreign markets

Lack of knowledge to locate foreign opportunities and promising markets is supposed to be a major hurdle in exporting of SMEs in developing countries (Dymsza, 1983; Bodur, 1986; Karafakioglu, 1986; Weaver and Pak, 1990; Li, 2004).

Competition as a barrier:


Lack of market information

Lack of market opportunities is a key constraint for SMEs in expanding employment and improving the quality of the job and it is probably the most neglected and less explored problem for Small firms and medium scale industries (Rajib Lahiri 2012). Most of them do not have any well formulated marketing strategy, market research programmes, Innovative advertisement techniques etc. Most of the MSMEs do not have adequate monetary support to developmarketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company).
2.5.4 Initiatives which are taken by Government in order stimulate SMEs in India

One of the noticeable steps in this regard is certainly the setting up of MSME Act 2006. Certain actions like Loan subsides for SMEs, Listing of SMEs on national stock exchange like NSE (titled EMERGE) and BSE were taken by Indian Government and SEBI in order to encourage and protect the SMEs against astounding growth. According to the newest data quoted by “SME World” (January 2013), listings of SMEs on stock exchange is a footstep in the right way for the SMEs who are watching to raise financial resources but have to fight with apathy of the Indian Financial system as there is huge number of regulatory approvals. There are major benefits that SMEs enjoy on SME exchange listing like least paid up capital, minimum subscription and no minimum years revenue track record required for listing (Banerjee, Ayan 2013).

The Ministry of Micro, Small and Medium Enterprises (MSME) is functioning a Scheme that is Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Up gradation of Micro and Small Enterprises. The System aims at assisting Technology Up gradation of Micro and Small Enterprises (earlier recognized as Small Scale Industries). Credit Guarantee Fund Scheme was setup for Micro and Small Enterprises with the aim of creating available credit to SMEs. Credits up to Rs. 100 lakh without Collateral/third party guarantees were delivered to SMEs. The structure is being functioned by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up equally by the Government of India and SIDBI (Magazine; SME world 2013).

However, Prof. H.L.Nagaraja Murthy(2012)argues that in India, effective enactment of policies and distribution of results to the satisfaction of the SMEs, remain much below than actually wanted, though there are a huge number of institutional mechanisms and funding measures available and concerns shown by the government. There is a necessity to critically review the prevailing policies and mechanisms, to assess the restraints and gaps in bringing the desired outputs.
2.6 Empirical studies outside India

2.6.1 Africa
SMEs are not much strong in Africa because of small local markets, undeveloped local integration and very challenging business circumstances, which contain cumbersome official procedures, weak infrastructure; uncertain legal systems, poor financial systems and unattractive tax managements (Céline Kauffmann 2004). According to Celine Kauffmann most African financial systems are fragmented. The “missing middle” in the pattern of size of firm is harmonized by one in the range of financing available. Deficiency of funding for SMEs has partially been made up for by micro-credit institutions, whose growth is due to the flexible loans they offer small businesses.

Africa’s SMEs have little access to finance, which thus hinders their development and eventual growth. But on the other hand; Dalberg (2011) in his study argues that Banks in Africa are among the most profitable and lucrative. They might appreciate the potential of the SME market, but they have little incentive to move outside of their security zone and develop SME products. As Paul Collier observed: “African banks were operating profitably via the easier and safer role of lending to large firms, and holding high-yielding government debt.” As a result, in the words of a manager of one famous African bank “we have only scratched the surface of the SME market.”

2.6.2 Asia and Latin America

Banks and capital markets are the key elements of domestic financial systems in Asia and Latin America. They share a number of features, specially the framework in which they function.

Unfortunately, the financial systems in most Latin American countries work poorly, comprising both the banking structures and the capital markets. They are not offering either the assistance required for higher growth or the access wanted to develop opportunities to SMEs (Barbara Stallings 2001). On the contrary, Some recent researches argues that large firms are not financially constrained; they can move from one type of finance to another, in accordance with the state of domestic market and credit markets. Small firms by contrast, do not have access to either international finance or domestic capital markets. The reasons that banks are unwilling to finance small firms are well known—lack of information and high transaction costs. Even though
many public sector banks have helped to sort out both problems through first and specifically, second –tier operations.

**2.6.3 Europe**

Small and medium-sized enterprises are the Centre part of Europe’s economy. Due to their limited size and their generally lower creditworthiness, their access to financial market instruments is more restricted than for large enterprises, these problems for SMEs may completely limit their growth potential and, in particular when it comes to dearth of risk capital, their innovation and R&D process. Therefore it is very crucial from the part of European financial system to introduce more innovative financing schemes for the growth and development of SMEs (Morten Balling, Beat Bernet 2009).

On the contrary, Angela Roman (2011) in her research argues that the issue is not all about the limited bank financing because the European banks are financing 75% of the real economy [European Commission, 2011f], the actual problem for the SMEs and start-ups are they face a number of difficulties when they want to attain funds from banks. Therefore it is the responsibility of governments to look at the reasons why so many SMEs particularly those with potential to develop through external financing do not get external finance at the time of their needs.

The crucial importance of the support of SMEs access to finance for European economic recovery can be underlined by the statement of the European Commission Vice President Antonio Tajani [European Commission, 2011d]: “easing access to finance for SMEs is priority number one to get out of the crisis”, and the fundamental objective pursued by the new measures proposed is “to strengthen our EU financial instruments for SMEs and to improve their access to finance markets.

**2.7 Conclusion on Literature Review**

This paper is provided a comprehensive literature review covering the topics of various theories related to SMEs and its access to external finance in connection with various financial institutions in India. This section also covers some empirical studies on the topic of Small and
Medium scale industries within and outside India. The literature review revealed that there are a number of sources of credit and support for SMEs. Moreover, the study also reveals that much of the information in terms of access to finance and SME support available relates to government programs. Most of the studies and research focused on the supply side and (possible) constraints to access. Therefore, more research is needed in this area to identify the specific needs of the SME sector when it comes to financing and their related problems.
CHAPTER - 3

Research Methodology

3.1 Introduction
Methodology is a body of knowledge that enables researchers to explain and analyze methods – indicating their limitations and resources, identifying their presuppositions and consequences, and relating their potentialities to research advances (Miller 1983). Research methodology is defined by Leedy & Ormrod (2001) as “the general approach the researcher takes in carrying out the research project “Moreover, it underpins the types of questions that can be addressed and the nature of the evidence that is generated (Clark et al. 1984). Therefore, the issue of research methodology is important to any study. Appropriation between research paradigm, type of data, and collection methods has significant implications upon the research findings. It also focuses the philosophical framework within which the research is to be conducted (Brown 2006). Hence, this chapter will examine various methods that are intended to be used within the proposed study, and provide the “reasons for using a particular research recipe” Clough and Nutbrown (2007 pg.23). It then gives a detailed description of the sample and the sampling procedure used in this study and closes with the techniques used in data collection and the methods of data analysis.
3.2 Research questions

According to Stuermer (2009), developing research questions is the most important task in a research project as it influences every aspect of a research including; theory to be applied, method to be used, data to be gathered and unit of analysis to be assessed etc. Well thought out research questions provide focus to a researcher and determine what, when, where and how the data will be collected and provide an important link between conceptual and logistic aspects of research project (Ohab, 2010). This study is expected to deliver an insight related to the SMEs access to finance from financial institutions such as from commercial banks, Micro financial
institutions and Credit unions in India. Therefore, the possible research questions for the present study are as followed.

1. Whether or not financial institutions are providing adequate credits to SMEs?  
The aim of this question is to ascertain whether SMEs are getting adequate amount of lending from financial institutions.
2. What are the problems encountered by the Small and Medium industrialists in obtaining finance from financial institutions in India?  
The rational for this question is to assess the financial based problems facing small and medium enterprises in India.
3. What is the effectiveness of these financial organizations in solving the problems that are being faced by SME owners in India?  
The main objective of this question is to evaluate the effectiveness of financial institutions in solving financial based problems of SMEs in India.

3.3 Research Hypothesis

“Hypotheses are single tentative guesses, good hunches – assumed for use in devising theory or planning experiments intended to be given a direct experimental test when possible”. (Eric Rogers, 1966). Emerging from the stated research questions, one main hypothesis of the present quantitative research, which focused on a possible positive relation between Institutional finance and SMEs growth, have been set up. Additionally to the named hypothesis, the “null hypothesis” stated that there is no significant relationship between the variables (Creswell, 1994).

H1- Financial institutions makes significant contribution to the growth and development of SMEs in India

H0 – Financial institutions makes no significant contribution to the growth and development of SMEs in India.
3.5 Research philosophy

According to Saunders et al (2009) research philosophy is an over-arching term relating to the development of knowledge and the nature of that knowledge. Selecting the research philosophy is a necessary stage in the research process because it is important to reflect the perspective of a researcher and it also influences directly on the choice of research strategy and research methods (Saunders, Lewis and Thornhill, 2012). Regarding the theory of philosophy Sexton (2003) argues that contrasting viewpoints on research philosophies are characterized by contrasting views taken on the ontological, epistemological and axiological assumptions (explained below)

Epistemological assumption: This assumption is about ‘how one will understand the world’. Epistemology concerns the acquisition of knowledge and the relationship between the researcher and the researched. It addresses the “origins, nature, methods, and limits of human knowledge” (Reber, 1995, p. 256), focusing on questions relating to the nature of knowledge.

Ontological assumption: This assumption is concerned with the nature of reality. Wand and Weber (1993, p220) explained ontology as “a branch of philosophy concerned with articulating the nature and structure of the world”

Axiological assumption: This assumption deals about the nature of values and the foundation of value judgments (Sexton, 2003). The spectrum extends from ‘value-free’ where the researcher does not impose any value judgments on the subject of research to ‘value-laden’ where value judgments are involved. In the following sections, the main research philosophies of positivism, interpretivism and realism is discussed in detail.

Positivism

Positivism takes the ontological assumption that the reality is external and objective. Based on the above-mentioned ontological assumption; positivism takes the epistemological stance that the subject under research should be studied through objective methods rather than by subjective methods such as sensation, reflection or intuition. (Easterby-Smith et al, 2002). Moreover, this approach is deductive through development of theory and testing hypotheses. Positivism approach should be measured through objective methods (Easterby-Smith et al., 2008).
**Interpretivism (Social Constructivism)**

In contrast to positivism, interpretivism takes the idealism and relativist stands in respect of ontological and epistemological rules. Interpretivists view reality as socially constructed (Saunders et al, 2003) thus it is also named social constructivism. In social constructivism emphasis is placed on the different constructions and meanings placed by people upon their experience because people interact with the environment and try to make sense of situations through their interpretations (Easterby-Smith et al, 2002; Saunders et al, 2003).

**Realism**

However in contrast to positivism philosophy, realism takes the epistemological stance of anti-positivist. Under the philosophy of realism, truth is sought through triangulation of methods and through survey viewpoints as the truth is not directly comprehensible (Easterby-Smith et al, 2002).

The positivist philosophy is appropriate choice for this research owing to the research objectives to examine the relationships between the extents of SME growth and the available external finance to support this growth. Furthermore, collecting data to analyze these facts in this research proves that it is positivism.

**3.6 Research approach**

The next layer of the research onion defines the research approach. It is very significant that a researcher should explain clearly which approach is being followed in his or her research project. The research approach indicates whether the use of “….theory is explicit within the research design”(Saunders,et. Al., 2008:87). The research approach can be divided into two broad groups known as deductive approach and inductive approach (Saunders et al. (2003).
3.6.1 Inductive approach:

The inductive approach is known as building a theory, in which the researcher starts with collecting data in an effort to develop a theory. When researchers first begin to open up any new line of enquiry there will be no useful theories available from which to deduce propositions for testing. Knowledge has to begin with gathering facts and then trying to find some order in them. This is known as induction ((Marshall, 1997)

3.6.2 Deductive approach:

The deductive approach is known as testing a theory, in which the researcher develops a theory or hypotheses and designs a research strategy to test the formulated theory. Deduction is the technique by which knowledge develops in more established fields of enquiry. It involves a sort of logical leap. Going a stage further than the theory, data is then collected to test it (Marshall, 1997). The deductive approach represents the drawing of conclusions from the general to the specific (Berg & Latin,2007,p.9).In addition, it requires that the researcher should formulate hypotheses based on what is known about a particular domain including the theoretical considerations of that domain and collect data to analyze the formulated hypothesis to enable her confirmed or reject the hypothesis

Due to positivistic philosophy and the research questions to test theory this research is suitable with deductive research approach. Moreover, the deductive approach is most associated with quantitative research and it involves the creation of an idea or hypothesis and based on existing theory, data is collected to eventually test the idea or hypothesis (Gratton &Jones, 2010, p.36).
3.7 Research strategy

Saunders et al.(2000) describes the research strategy as a generic plan guiding the researcher to answer the specific research questions. There are various research strategies. Such as Experiments, survey, case study, grounded theory, and ethnography and action research within the spectrum from deductive to inductive research approaches (Saunders et al, 2003; Yin 2003; Easterby smith et al, 2002; Gill Johnson, 2002)

Generally experiments are undertaken on the sample of the population and within a controlled environment to test whether there is causal relationship between the variables under investigation (Baker, 2001). In contrast, surveys are conducted on a wider population using economical data collection methods such as questionnaires (Saunders et al, 2003).

The case studies provide an opportunity to use multiple sources of evidence to empirically investigate a contemporary phenomenon. Case studies allow us to find answers to ‘what’, ‘why’ and ‘how’ types of questions. Data can be collected using a number of methods that may include questionnaires, interviews, observations and documentary evidence.

Grounded theory is a strategy where data is collected without an initial theoretical framework. Theory is developed from the collected data itself and these theories are further tested to derive conclusions. Ethnography and action research are highly rooted in social science and characterized by the high level of involvement of the researcher, with the subject of research. Due to the selected deductive approach, the survey approach is the most rational choice for this research. Because the survey are considered most suited to get the quantitative data. Survey strategy can be defined as a specific sampling from the population and the structured questionnaires are designed to test theory (Malhotra and Birks, 2007). This strategy is suitable to test the relationships between variables in research objectives using quantitative data method (Saunders, Lewis and Thornhill, 2012). In addition, this survey strategy also appropriate with cross-sectional time horizon studies (Easterby-Smith et al. 2008; Robson 2002 cited in Saunders, Lewis and Thornhill, 2012)
3.8 Research Choice

The next layer in the research onion is research choice. Before data collection it is important to determine whether the objective of the research is to study a phenomenon in a snapshot of time (cross sectional) or study an ongoing phenomenon (longitudinal) (Saunders et al., 2003). There are three kinds of research choices. In mono-method the researcher adopts one method for her study from various methods of research. In Mixed method the researcher adopts generally two methods such as qualitative or quantitative research methods. In Multi method a number of research methods are brought together to investigate or to make a study (Saunders, Lewis, & Thomhil, 2007).

Due to the selected positivistic research philosophy as well as deductive approach, the mono method with quantitative approach is the research choice of this study.

3.9 Time Horizon

Before data collection it is important to determine whether the objective of the research is to study a phenomenon in a snapshot of time (cross sectional) or study an ongoing phenomenon (longitudinal) (Saunders et al., 2003). Depending on the requirement the researcher can devise data collection methods such as analysis of secondary data, observations, interviews and questionnaires within the selected research strategy.

Cross sectional method will be applied in this research. The time horizon for conducting the research was prefixed and planned. A limited period of time was allotted to the researcher to conduct the data collection for the samples selected. A cross sectional study enabled the topic to be carried out within the required time frame. Even though it is said that the cross sectional studies are time constrained (Saunders et al. 2007 p.148).
3.10 Data collection

Data collection is an important aspect in the research process that requires both primary data and secondary data collection. There are two major approaches to gather information for a research project according to Kumar, R. (2011). These approaches are primary and secondary data’s. Primary research can be defined as research which is collected for the first time (Chisnell 1992). There are various methods which can be used when gathering primary data such as interviews, case studies, focus groups and surveys. While the Secondary research is research that is carried out with already existing data these include both raw data and published summaries (Mark Saunders, Philip Lewis, Adrian Thornhill 2009). In the research project the researcher collected data through both secondary research and through the primary quantitative research.

3.11 Primary research

3.11.1 Quantitative primary research

Baxter, Hughes and Tight (2001) suggest that quantitative research methods were developed by researchers in natural sciences carrying out experiments and then measuring the results. This type of research is used to measure how individuals feel, think or act in a specific way. Qualitative research methods is a more explorative design gaining insight into such things as people”s attitudes, behaviours, motivations and concerns and is usually based on a small sample size (Malhotra & Birks 2003). Focus groups and in-depth interview are two of the approaches used when carrying out qualitative research. This method can be time consuming (Malhotra & Birks 2003).

On reviewing various research methodologies, it was concluded that the best approach to take to analyse the results for this study would be using a quantitative method of research. This research method allowed the data to be collected from a large group of people which could then be easily
measured. This method also allowed for problems to be easily identified. A qualitative research method could also have been used but it would not have been possible to statistically analyse the data and due to time constraints, it would not have been possible in the given time to conduct the research with the same sample size as was used for the quantitative method.

3.11.2 Questionnaire method

Techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order is known as questionnaire (devas 2002). Designing a questionnaire is a vital stage in data collection technique to support positivism methodology, deductive approach and survey strategy in business and management research (Saunders, Lewis and Thornhill, 2012) A questionnaire enables quantitative data to be collected in a standardized way so that the data are internally consistent and coherent for analysis.

For the purpose of this dissertation, a quantitative model was used to undertake the primary research in the form of questionnaires. Same set of questionnaires are designed for both SMEs and FIs with a view to get individual and common responses regarding with a particular issue. The questionnaires were emailed to 110 respondents including 75 SME owners and 35 officials from financial institutions on 16\textsuperscript{th} April 2014. The respondents were given a week to reply by email. A reminder email was sent on 23\textsuperscript{th} April 2014. Total 96 questionnaires containing 70 questionnaires from SME owners and 26 from financial institutions were returned providing a response rate of 87\%. In this study the researcher has employed both opinions as well as attitude questions.
3.12 Secondary Research

Brannick and Roche (1997, p.24) define secondary research as research, that was developed for some other purpose other than helping solve the research question in hand”. A thorough research was carried out on the secondary data published in order to aid in the design of the questionnaire. The secondary research sources utilized in relation to the topic included journals, books, articles and various published and unpublished data’s. These provided the means for the researcher to gain further knowledge on the topic. The review of literature is prepared by Reading the Core Text Books for SMEs and it’s financing. The researcher also used college library data’s google scholar and other online data bases. The bibliography section of this dissertation lists all sources from which the secondary data was collected.

3.13 Data analysis

Data analysis is an important area in the completion of the research (Saunders, Lewis, & Thomhil, 2007). Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques” (Cooper & Emory, 1995, p.67). The data collected was input into the computer program Statistical Package for Social Sciences (SPSS). This program permits data entry, consistency checks, assignment of missing values, statistical adjustments to the data and basic data analysis. Data processing will be conducted through coding thereby entering the data’s into Excel.

For reasons of design, support, and cost, SPSS is the software package that is preferred by researchers (Kathleen .Martin 2002 p.1). The package used to determine frequencies in order to analyze the number of respondents belonging to each variable. This SPSS program therefore took into consideration the analyses of data to determine frequency and percentages of the respondents and finally guide researcher to draw tabulation and graphs.
3.14 Sampling

According to Saunders et al (2007) sampling is one of the most crucial components of studies that involve the collection of primary data from the population.

The sample method involves taking a representative selection of the population and using the data collected as research information. A sample is a “subgroup of a population” (Frey et al. 125). It has also been described as a representative “taste” of a group. The study looked at SMEs in Uttar Pradesh (one of the state located in Northern India) and focused on a population that included all small & medium business enterprises and financial institutions including commercial banks, MFIs/NGOs and credit unions.

The sample for this study involved a total of 110 respondents. It includes 75 small and medium enterprises and 35 financial institutions. Of the 110 respondents earmarked for surveys, the study managed to cover 70 respondents from SMEs and 26 respondents from financial institutions (12-commercial bank, 8-microfinance and 6-credit union) which include officers and managers of respective financial bodies. Samples for this study are taken from Uttar Pradesh, is a state located in Northern India. The According to the survey conducted by Associated Chambers of Commerce and Industry of India (ASSOCHAM 2013) it is the third leading state to facilitate growth in SMEs and contains great numbers of banks and other financial institutions.

The choice of a sampling technique identifies a principle by which members of population are selected to be included in the sampling group. Sampling methods are broadly divided into two categories: probability and non-probability methods. Probability sampling is defined as having the “distinguishing characteristic that each unit in the population has a known, nonzero probability of being included in the sample” (Henry 1990). It is described more clearly as “every subject or unit has an equal chance of being selected” from the population (Fink 1995). There are four types of probability sampling that are standard across disciplines. These four include simple random sampling, systematic random sampling, stratified random sampling, and cluster sampling. In non-probability sampling methods, on the other hand, population members are selected on the basis of a specific non-random technique. Such non-random techniques, i.e. non-probability sampling methods include snowball, convenience, quota and judgment sampling methods. The advantage of non-probability sampling is that it is a convenient way for researchers to assemble a sample with little or no cost and/or for those research studies that do not require representativeness of the population (Babbie 1990).

For this study the researcher used non-probability sampling. Because of the time and cost constraints, the survey was conducted by making use of a judgmental sampling and convenience sampling. According to Saunders et al (2007), Judgmental sampling involves using an individual judgment to select people whose experience and perspectives are deemed to be the most important in meeting the research objectives. This type of sampling is also known as purposive sampling technique. The advantages of using this method is that, it is flexible and can imply a broad representation, hence, more organizationally suitable and it provides the scope for interpretation and judgment during the analysis process (Anderson 2004 and Saunders et al
Furthermore convenience sampling is the most common type of sampling in research studies where the only criterion according to Dörnyei (2007) is the convenience of the researcher. This sampling technique was also chosen by this research based on the availability of researcher’s resources and time.

3.15 Ethics

Ethics has become a keystone for conducting effective and meaningful research. As such, the ethical behavior of individual researchers is under unprecedented scrutiny (Best & Kahn, 2006; Field & Behrman, 2004; Trimble & Fisher, 2006). This research was conducted using a cross-sectional quantitative questionnaire method. There are ethical considerations for all proposals. In this research all replies, identity, and feedback received by the survey were kept confidential. Certain contents of the study will be kept confidential and filed in an important document. In this quantitative study, although the type of information to be collected from the participants may be of less sensitive nature than in other research projects, especially qualitative studies, nonetheless, all details have been and will be kept anonymous and confidential, ensuring data privacy is fully protected and no harm is caused to the participants. Participants were given a brief summary of the scope and research objectives of this study on the survey introductory letter to ensure informed consent from all participants completing the questionnaire.

3.16 Validity and Reliability

Patton (2002) states that validity and reliability are two features which any researcher should focus on while designing a study, analyzing the results and judging the quality of the study. According to Patton (2002) in a research work, all the rights things must be measured. Care should be taken that the appropriate item is measured (validity); in addition, careful attention should be paid to how the measurement is being made (reliability). This study therefore took into consideration these two key factors during the course of the research. All research questions proposed tested by the available theoretical analysis and intuitive analysis of the historical
evidence on the performance of SMEs and its financing within the scope of this study. Also, the results from the survey conducted used to evaluate the validity of the proposed research questions and it will also be compared with historical evidence presented in the work of earlier conducted researches.

3.17 Limitations of the study

Creswell (1994) defined research limitations as “(...) limiting conditions or restrictive weaknesses, which are unavoidably present in a study’s design” (Creswell, 1994, p. 17). For this research researcher has taken 96 samples from Uttar Pradesh in order to study the whole population of Indian SMEs. When comparing this with the total number of the SMEs and financial institutions, this is not enough for the proper findings. Because there is an assumption that the larger sample can always give more reliable results for the study. But considering the time and financial constraints it is the only option possible for the researcher to conduct the study with a minimum risk. Busy schedule of some SME owners and officials of financial institutions also created some problems particularly in the process of data collection. Surveys that are distributed with time constraints were noted by Delva, Kirby, Knapper and Birtwhistle (2002) as problematic, in that people who struggle with real or perceived time constraints are less likely to respond to surveys because these possible respondents feel overworked—they just do not have the time to complete the survey. Surveys often also suffer the limitation of forcing respondents into particular response categories, thereby limiting the range of responses.

3.18 Conclusion

This chapter has detailed the thesis’s theoretical and practical approach and rationalizes the different decisions and processes undertaken throughout the research journey. Also, the research philosophies, strategies and data collection methods are discussed in detail with the aim of filtering out the relevant philosophies and strategies to conduct the research. The study’s theoretical approach takes the philosophical stance of positivism. A quantitative approach has been used to reach the overall aim and objectives of the study as it is characterized by its ability to cover larger number of respondent’s. The chapter finally looks at the validity, reliability and the limitations pertained to the research process.
CHAPTER – 4

STUDY FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the study findings and analysis of data collected from the primary research acquired through survey questionnaires. The researcher employed software known as Statistical Package for Social Science (SPSS) for analyzing the data. The SPSS analyzed questionnaires with many questions include both close ended and open ended questions. The package used to determine frequencies in order to analyze the number of respondents fitting to each variable. The results of the findings were presented in texts, tables and figures. In order to realize the objectives of the study, the researcher assessed the SMEs access to finance from the financial institutions in India. The chapter provides a step by step presentation of data collected and their implications to the objectives of the study.

4.2 Methodology of Research

The following research and data collection processes are mainly based on a survey. The aim of the survey is to explore the significance of, and the impediments to SMEs’ access to finance from major financial institutions, including commercial banks, micro financial institutions and credit unions. In doing so, it asks for the views of and SMEs and FIs on these issues. Questions to both parties are combined in a common questionnaire, which is designed in-order to get individual and common opinions related to specific problems of SMEs. It includes open, closed and multiple response questions. Total 96 respondents are participated in this survey including 70 SME owners and 26 financial officials.

The questionnaire firstly seeks the profiles and general characteristics of respondents, followed by borrowing information’s of SMEs. The financial institutions are asked to assess their major services/products, major obstacles in SME lending and also the availability, type and usefulness
of government ‘policies, supports and regulations. Some common questions were also asked in order to get a general opinion regarding the role of government policies and support mechanisms towards SME development. Such design of questionnaires on SMEs and credit institutions serves of checking for reliability between the views of SMEs and financial providers thereby justifying the study findings.

4.3 Percentage of Responses from SMEs and financial institutions

Of the 110 respondents earmarked for surveys, the study managed to cover 70 respondents from SMEs and 26 respondents from financial institutions (See table and figure:4.1)

Table 4.1: Percentage of Responses from SMEs and financial institutions

<table>
<thead>
<tr>
<th>Percentage of Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid SME</td>
<td>70</td>
<td>72.9</td>
<td>72.9</td>
<td>72.9</td>
</tr>
<tr>
<td>commercial bank</td>
<td>12</td>
<td>12.5</td>
<td>12.5</td>
<td>85.4</td>
</tr>
<tr>
<td>MFIs/NGOs</td>
<td>8</td>
<td>8.3</td>
<td>8.3</td>
<td>93.8</td>
</tr>
<tr>
<td>Credit union</td>
<td>6</td>
<td>6.3</td>
<td>6.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.1.: percentage of response
4.4 Small and Medium Scale enterprises

4.4.1 Key Characteristics of the Respondents

In this study all SMEs surveyed were categorized in terms of its year of establishment, form of ownership its nature of business. Moreover the entrepreneurs surveyed are characterized by their age and gender

4.4.1.1 Distribution of gender

Table 4.2 Distribution of Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Male</td>
<td>52</td>
<td>74.3</td>
<td>74.3</td>
</tr>
<tr>
<td></td>
<td>female</td>
<td>18</td>
<td>25.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.2 Distribution of Gender
The study revealed that out of 70 SME owners interviewed, 25.7% of the respondents were females while 74.3% were males as in figure 4.2 illustrated. This study shows more male participation in the operation of small and medium enterprises compared to female.

4.4.1.2 Age of SME owners

According to the findings, about 38.6 percent of the respondents were aged between 31 to 40 followed by 30% of respondent’s whose age was between 18-30 years, 18.6% aged between 41 to 50 years and 12.9% represented above 51 years as indicated in Table 4.3 below

Table 4.3: Age of respondent

<table>
<thead>
<tr>
<th>Age of respondent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between 18-30 years</td>
<td>21</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Between 31-40 years</td>
<td>27</td>
<td>38.6</td>
<td>38.6</td>
<td>68.6</td>
</tr>
<tr>
<td>Between 41-50 years</td>
<td>13</td>
<td>18.6</td>
<td>18.6</td>
<td>87.1</td>
</tr>
<tr>
<td>Above 51 years</td>
<td>9</td>
<td>12.9</td>
<td>12.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The study concludes that the most interviewed SMEs owners were aged between 31 and 40 years. Hence, 31 to 40 is a middle aged group and normally this group is more self-employed than others.

### 4.4.2 Form of Ownership

Q3. What is the ownership form of your enterprise?

As regards to type of ownership, the study showed that most SMEs were sole proprietorship (57.1%) and this is representative of the nature of business ownership commonly found in India, followed by limited company (14)% partnership 11(%) and 5(%) are cooperatives.

Table 4.4 ownership form
Figure 4.4 ownership form

<table>
<thead>
<tr>
<th>ownership form</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>40</td>
<td>57.1</td>
<td>57.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Sole owner</td>
<td>11</td>
<td>15.7</td>
<td>15.7</td>
<td>72.9</td>
</tr>
<tr>
<td>Partnership</td>
<td>14</td>
<td>20.0</td>
<td>20.0</td>
<td>92.9</td>
</tr>
<tr>
<td>Limited company</td>
<td>5</td>
<td>7.1</td>
<td>7.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Co-operative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.5: Major Economic Activities carried Out by SME sector.

4.4.3 The nature of company’s operations

Q 4; The nature of your company’s operations?

There are wide range of activities carried out in the economy but the researcher considered only three categories such as manufacturing, services as well as commerce and trade as the figure 4.5 below shows. Manufacturing & service activities accounted 14.3% and 50% respectively.
Figure 4.5: Major Economic Activities carried Out by SME sector.

<table>
<thead>
<tr>
<th>Nature of business activity</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Service</td>
<td>35</td>
<td>50.0</td>
<td>50.0</td>
<td>64.3</td>
</tr>
<tr>
<td>Commerce and Trade</td>
<td>25</td>
<td>35.7</td>
<td>35.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Commerce and trade activities accounted 35.7%. These results show that participation of people in the SME sector have a great economic significance. Most respondents are engaged in the services industry than in manufacturing, and commerce & trade. The high growth of services industry has been initiated by the rapid development in technology, telecommunication, banking and transportation in the country.

4.4.4 Age of business

Q How long have you been in business?
Table: 4.6 Age of business

<table>
<thead>
<tr>
<th>Age of SME</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-5 years</td>
<td>29</td>
<td>41.4</td>
<td>41.4</td>
<td>41.4</td>
</tr>
<tr>
<td>5-10 years</td>
<td>25</td>
<td>35.7</td>
<td>35.7</td>
<td>77.1</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>16</td>
<td>22.9</td>
<td>22.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure: 4.6 Age of business

It was observed that, the sample size comprised of more of the SMEs with 2 to 5yrs, as they represented 41.4 % of the population. While those companies that are between 5 to 10yrs represented 35.7 % of the population, and those that are 10yrs and above represented over
22.9% of the population. This therefore suggests that the number of Indian SMEs that survive, thrive and grow to maturity is increasing as the years go by.

4.4.5 Hypothesis

**H1: Financial institutions (FIs) make significant contribution to the growth and development of SMEs in India**

This hypothesis is designed to determine if FIs are making any significant contribution to the development and growth of SMEs. The null hypothesis designed is that the financial institutions make no significant contribution to the development and growth of SMEs.

Following questions (Q7, Q8, Q9, Q13) are designed to test the above hypothesis by considering various factors such as; SMEs loan application and its related success rate, reasons for taking loan (whether it utilized for start-up, working capital or for fixed assets) and lastly impact of these finance on SMEs various success & growth indicators such as profitability, sales revenue, physical assets and financial assets of SMEs.

4.4.6 Experience on loan application

Q7. Did you ever apply for a loan?

Table 4.7: experience on loan application

<table>
<thead>
<tr>
<th>Did you ever apply for a loan?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>45</td>
<td>64.3</td>
<td>64.3</td>
<td>64.3</td>
</tr>
<tr>
<td>No</td>
<td>25</td>
<td>35.7</td>
<td>35.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.7 experience on loan application
The findings showed that a substantial proportion of respondents 64.3% applied for loans from Banks or other financial institutions while 35.7% of the respondents didn’t make any loan from FI’s (See figure:

4.4.6.1 Reasons for not seeking loan

Q7(a): if no, why did you not apply for external finance?

In order to better understand the reason behind SMEs (25) lack of credit demand, they were specifically asked to provide reasons for not seeking loan. 28% have not applied for any finance due to a belief that banks are not lending. 24% of SMEs who have not looked for credit suggests that this is due to possible rejection. These SMEs decided not to apply because they thought the bank would reject their application. 20% of SMEs responded that they have sufficient internal fund and there is no need to raise finance from bank or other sources.
Table: 4.8 Reasons for not seeking loan

<table>
<thead>
<tr>
<th>Reasons for not applying loan</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid: Because of possible rejection</td>
<td>6</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Valid: Because of sufficient internal funds</td>
<td>5</td>
<td>20.0</td>
<td>20.0</td>
<td>44.0</td>
</tr>
<tr>
<td>Valid: Belief that banks are not lending</td>
<td>7</td>
<td>28.0</td>
<td>28.0</td>
<td>72.0</td>
</tr>
<tr>
<td>Valid: Too expensive to borrow</td>
<td>2</td>
<td>8.0</td>
<td>8.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Valid: Inability to repay/ meet requirements of finance</td>
<td>3</td>
<td>12.0</td>
<td>12.0</td>
<td>92.0</td>
</tr>
<tr>
<td>Valid: Other reasons</td>
<td>2</td>
<td>8.0</td>
<td>8.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.8 Reasons for not seeking loan

[Chart showing the percentage of reasons for not seeking loans, with categories such as 'Belief that banks are not lending', 'Too expensive to borrow', 'Inability to repay/meet requirements of finance', 'Because of sufficient internal funds', and 'Because of possible rejection'.]
A further 12% have not applied because of their in-ability to repay or to meet the requirements of credit from financial institutions. A small proportion of SMEs (8%) have not borrowed. The reason cited for not applying was it is too expensive to borrow.

### 4.4.7 Loan success rate

Table: 4.9 Loan success rate

Q7(b):

<table>
<thead>
<tr>
<th>How successful you were after applying loan?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied and got everything</td>
<td>17</td>
<td>37.8</td>
<td>37.8</td>
<td>37.8</td>
</tr>
<tr>
<td>Applied and got most of it</td>
<td>15</td>
<td>33.3</td>
<td>33.3</td>
<td>71.1</td>
</tr>
<tr>
<td>Applied but only got a limited part of it</td>
<td>6</td>
<td>13.3</td>
<td>13.3</td>
<td>84.4</td>
</tr>
<tr>
<td>Applied but refused because costs too high</td>
<td>4</td>
<td>8.9</td>
<td>8.9</td>
<td>93.3</td>
</tr>
<tr>
<td>Applied but was rejected</td>
<td>3</td>
<td>6.7</td>
<td>6.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.9 Loan success rate
Around 38 in 45 SMEs (69%) who applied for loan from financial institutions were either wholly (66%) or partially (39.3%) successful. 37.8% of SME who applied for loan have got the full loan, 33.3% got most of the applied loan and 6% of SMEs got only a limited part of it. Out of the remaining 7 percent, 3% of SME loan applications were rejected and 4% declined the loan offer because they found the conditions and the costs are unacceptable. The finding indicates a considerable rate of loan approvals by financial institutions towards SME.

4.4.7.1 Reasons for seeking credit

Q 8 (a) what are the reasons made you to apply loan from bank or other financial institutions?

Findings have revealed that SMEs primarily require finances for three purposes; for start-up, for working capital and for fixed capital. Based on the survey findings, the main reason for applying loan was to finance extra capital requirements – this is mentioned by 28.9% of SMEs seeking finance for their business.
Table 4.10 Reasons for seeking credit

<table>
<thead>
<tr>
<th>Reason for applying the loan</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid For start up business</td>
<td>11</td>
<td>24.4</td>
<td>24.4</td>
<td>24.4</td>
</tr>
<tr>
<td>For extra capital for the business</td>
<td>13</td>
<td>28.9</td>
<td>28.9</td>
<td>53.3</td>
</tr>
<tr>
<td>For buying machineries and equipments</td>
<td>5</td>
<td>11.1</td>
<td>11.1</td>
<td>64.4</td>
</tr>
<tr>
<td>Training/employee development</td>
<td>2</td>
<td>4.4</td>
<td>4.4</td>
<td>68.9</td>
</tr>
<tr>
<td>Expansion of business</td>
<td>5</td>
<td>11.1</td>
<td>11.1</td>
<td>80.0</td>
</tr>
<tr>
<td>Marketing</td>
<td>3</td>
<td>6.7</td>
<td>6.7</td>
<td>86.7</td>
</tr>
<tr>
<td>Research and development</td>
<td>2</td>
<td>4.4</td>
<td>4.4</td>
<td>91.1</td>
</tr>
<tr>
<td>Other reasons</td>
<td>4</td>
<td>8.9</td>
<td>8.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.10 Reasons for seeking credit

The second most common purpose was to finance start up requirements of the enterprise, which is mentioned by 24.4 percent. The two other reasons (to almost the same extent among all SMEs)
for obtaining a loan were for machineries/equipment or for fulfilling their business expansion plans. Very few used the loans for staff training (4.4%) or marketing purposes. But a considerable portion borrowed for a range of other reasons (8.9%).

4.4.7.2 Loan size of the respondent

8(b) What was the amount borrowed at the first time?

Table 4.11 Loan size of the respondent

<table>
<thead>
<tr>
<th>Amount borrowed</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Below 25,000</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>25,000-100,000</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>35.3</td>
</tr>
<tr>
<td>100,000-300,000</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>64.7</td>
</tr>
<tr>
<td>300,000-500,000</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>88.2</td>
</tr>
<tr>
<td>Above 500,000</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.11 Loan size of the respondent
Among those SMEs that took out a loan, the amount borrowed was most likely to have been Above INR 500000 (11.8%) But 29.4% of SMEs borrowed loans amounting to between INR 100000-300000. With an equal number of 47% of SMEs borrowed a loan between INR 300000-500000 & INR 25,000-100000. Whereas, 11.8% of SMEs borrowed an amount below 25000. However, it is suggested that most of the SMEs prefer to borrow an amount between 25,000-500000. The biggest loan (over INR 500000) was taken by a small portion of SMEs accounted for only 11.8%.

4.4.7.3 Opinion on Providers

8(c) who provided you with this last loan?

When respondents were asked if they have gotten funds from any of these institutions, majority of respondents (38.2%) opined that they have gotten funds mostly form commercial banks. 29% of respondents indicated that they have gotten loan from Micro financial institutions and 7% has obtained fund from credit unions. Remaining 11.8% were from other sources (Private individual, family or friend investors and other venture capitalists).

Table: 4.12 Loan providers

<table>
<thead>
<tr>
<th>Loan providers</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>15</td>
<td>44.1</td>
<td>44.1</td>
<td>44.1</td>
</tr>
<tr>
<td>Micro finance institutions/NGOs</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>67.6</td>
</tr>
<tr>
<td>Credit unions/co-operative banks</td>
<td>6</td>
<td>17.6</td>
<td>17.6</td>
<td>85.3</td>
</tr>
<tr>
<td>Other sources</td>
<td>5</td>
<td>14.7</td>
<td>14.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
This finding slightly contradicts the opinion of Rajib Lahiri (2008). In the review of literature, he mentioned that Indian SMEs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financial institutions.

4.4.7.4 Opinion on Loan repayment

Q 8(d) How often do you repay your loan?
Table 4.13 Opinion on Loan repayment

<table>
<thead>
<tr>
<th>Loan repayment</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Weekly</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>Monthly</td>
<td>20</td>
<td>58.8</td>
<td>58.8</td>
<td>88.2</td>
</tr>
<tr>
<td>Quarterly</td>
<td>3</td>
<td>8.8</td>
<td>8.8</td>
<td>97.1</td>
</tr>
<tr>
<td>Yearly</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The survey revealed that most of the respondent’s (58.8%) are repaying their loan monthly. 29.4% opined that they repay loan every week. The remaining 11.7% repay their loan quarterly and annually.

4.4.7.5 Achievement of growth indicators

Q(9) Please indicate the level of your firm’s achievement level after getting financial assistance?
The researcher further assessed the impact of loan finance on the following factors: sales revenue, profitability, physical asset, financial assets and market coverage. The more increased and slightly increased options were combined to give the ‘positive changes’, more decreased an slightly decreased options were combined to give ‘negative changes’, and no changes remained to be ‘stable’.

Table: 4; 14 Achievement of Sales revenue

<table>
<thead>
<tr>
<th>Achievment of sales revenue</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Slightly decreased</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Stable</td>
<td>6</td>
<td>17.6</td>
<td>17.6</td>
<td>29.4</td>
</tr>
<tr>
<td>Slightly increased</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>58.8</td>
</tr>
<tr>
<td>More increased</td>
<td>14</td>
<td>41.2</td>
<td>41.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.14 Achievement of Sales revenue
The findings showed that about 14(41.2%) and 10(29.4%) of the respondents reported positive changes, 6(17.6%) remained stable and only 4(11.8%) showed negative changes in their sales revenue.

Table: 4.15 Achievement of profitability

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>More decreased</td>
<td>1</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Slightly decreased</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Stable</td>
<td>7</td>
<td>20.6</td>
<td>20.6</td>
<td>35.3</td>
</tr>
<tr>
<td>Slightly increased</td>
<td>9</td>
<td>26.5</td>
<td>26.5</td>
<td>61.8</td>
</tr>
<tr>
<td>More increased</td>
<td>13</td>
<td>38.2</td>
<td>38.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.15 Achievement of profitability
13 (38.2%) and 10 (26.5%) of respondents showed positive changes, 7 (20.6%) remained stable, 4 (11.8%) and 1 (2.9%) of the respondents reported negative changes in their profits.

Table: 4.16 Achievement of physical assets

<table>
<thead>
<tr>
<th>Achievement of Physical assets</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More decreased</td>
<td>4</td>
<td>11.8</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Slightly decreased</td>
<td>2</td>
<td>5.9</td>
<td>5.9</td>
<td>17.6</td>
</tr>
<tr>
<td>Stable</td>
<td>7</td>
<td>20.6</td>
<td>20.6</td>
<td>39.2</td>
</tr>
<tr>
<td>Slightly increased</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>67.6</td>
</tr>
<tr>
<td>More increased</td>
<td>11</td>
<td>32.4</td>
<td>32.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.16 Achievement of physical assets
Physical assets about 11(32.4%) and 10(29.4%) showed positive changes while 7(20.6%) remained stable, 4(11.8%) and 2(5.9%) reported negative changes.

Table: 4.17 Achievement of financial assets

<table>
<thead>
<tr>
<th>Achievement of financial assets</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Slightly decreased</td>
<td>5</td>
<td>14.7</td>
<td>14.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Stable</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>38.2</td>
</tr>
<tr>
<td>Slightly increased</td>
<td>9</td>
<td>26.5</td>
<td>26.5</td>
<td>64.7</td>
</tr>
<tr>
<td>More increased</td>
<td>12</td>
<td>35.3</td>
<td>35.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.17 Achievement of financial assets
12(35.3%) and 9(26.5%) of the respondents reported positive changes, 8(23.5%) of respondents indicated no changes and 5(14.7%) showed negative changes in their financial assets.

Table: 4.18 Achievement of market coverage

<table>
<thead>
<tr>
<th>Achievement of Markets coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>More decreased</td>
</tr>
<tr>
<td>Slightly decreased</td>
</tr>
<tr>
<td>Stable</td>
</tr>
<tr>
<td>Slightly increased</td>
</tr>
<tr>
<td>More increased</td>
</tr>
</tbody>
</table>

Figure: 4.18 Achievement of market coverage

Lastly market coverage of all respondents revealed 13(38.2%) and 11(32.4%) showed positive changes 6(17.6%) remained stable, 3(8.8%) and 1(2.9%) showed negative changes.

Results from the study indicated that there were positive impact of loan on sales revenues, profitability, physical asset and market coverage of SMEs.
4.4.7.6 Terms and conditions of external finance

Q(10) Regarding the terms and conditions of bank financing available to your firm for each of the following item, please indicate that whether they were increased, remained unchanged or were decreased over the past 12 months.

MEs that had applied for bank financing were asked whether the various terms and conditions had changed over the past twelve months.

Table: 4.19 Changes with the level of interest rates

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was increased</td>
<td>13</td>
<td>38.2</td>
<td>38.2</td>
<td>38.2</td>
</tr>
<tr>
<td>Was decreased</td>
<td>6</td>
<td>17.6</td>
<td>17.6</td>
<td>55.9</td>
</tr>
<tr>
<td>Remain unchanged</td>
<td>15</td>
<td>44.1</td>
<td>44.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

38.2% of SMEs that had applied for a loan from bank and other financial institutions reported that interest rates had been increased in the past twelve months, but 17.6% reported some reduction and 44.1% indicated no change. So the majority (61.7%) were reported no change or an increase in the interest rates.

Table: 4.20 Changes with the level of other charges

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was increased</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>Was decreased</td>
<td>15</td>
<td>44.1</td>
<td>44.1</td>
<td>73.5</td>
</tr>
<tr>
<td>Remain Unchanged</td>
<td>9</td>
<td>26.5</td>
<td>26.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
However, the non-interest related costs (fees, charges, commission) of financing were reported to have been decreased by a substantial majority of respondents (44.1%), The rest of them reported either no change (26.5%) to these costs or an increase (only 29.4%).

**Table 4.21 Changes with loan size available**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>16</td>
<td>47.1</td>
<td>47.1</td>
<td>47.1</td>
</tr>
<tr>
<td>Was increased</td>
<td>10</td>
<td>29.4</td>
<td>29.4</td>
<td>76.5</td>
</tr>
<tr>
<td>Was decreased</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Remain unchanged</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

47.1% responded that there was an improvement in the available loan size. Just over half of the respondents reported either no change (38.2%) to these costs or a decrease (only 14.7%).

**Table 4.22 Changes with available repayment period of loan**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>11</td>
<td>32.4</td>
<td>32.4</td>
<td>32.4</td>
</tr>
<tr>
<td>Was increased</td>
<td>15</td>
<td>44.1</td>
<td>44.1</td>
<td>76.5</td>
</tr>
<tr>
<td>Was decreased</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Remain unchanged</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

44.1% of respondents opined that there was a reduction in the total maturity period of credit. Whereas 32.4% indicated that there was an increase in the available repayment period of loan. And the rest (23.4%) of them reported that there were no any changes with the time allowed them to repay loan.

**Table 4.23 Changes with information requirements**
Notably just over half of the respondents (55.9%) indicated that information requirements were decreased during the past twelve months. The rest of them feel either no change (20.6%) or an increase (23.5%) on information requirements for approving loans.

Table 4.24 Changes with collateral requirements

<table>
<thead>
<tr>
<th>Information requirements,</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Was increased</td>
<td>8</td>
<td>23.5</td>
<td>23.5</td>
<td>23.5</td>
</tr>
<tr>
<td>Was decreased</td>
<td>19</td>
<td>55.9</td>
<td>55.9</td>
<td>79.4</td>
</tr>
<tr>
<td>Remain unchanged</td>
<td>7</td>
<td>20.6</td>
<td>20.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

32.4% of SME owners feel that collateral requirements were increased (32.4%) but 26.5% indicated a decrease. But majority of respondents (41.2%) indicated these requirements were not increased or decreased but remains unchanged.

The finding shows that there has been some reduction with the loan repayment period. More positively for businesses, the available size of loan, is slightly more likely to have increased (47.1%) than decreased (27.4%). Moreover other charges (excluding interests) and information requirements are also been reduced by a great extent.
4.4.8 Major threats to the development of SMEs

Q(11): What are the threat to the development of your enterprise please tick to the appropriate answer (Please tick as much as possible)?

Table: 4.25: Major threats to the development of SMEs

<table>
<thead>
<tr>
<th>Major threats to the development of SMEs</th>
<th>Responses</th>
<th>Percent</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Availability Of finance</td>
<td>17</td>
<td>8.9%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Problems in access to market</td>
<td>10</td>
<td>5.2%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Less demand from the public</td>
<td>6</td>
<td>3.1%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Procedural difficulties in starting a company</td>
<td>22</td>
<td>11.5%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Lack of Infrastructural facilities</td>
<td>23</td>
<td>12.0%</td>
<td>32.9%</td>
</tr>
<tr>
<td>High level of Competition</td>
<td>16</td>
<td>8.3%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Lack of market information</td>
<td>9</td>
<td>4.7%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Lack of management skills</td>
<td>20</td>
<td>10.4%</td>
<td>28.8%</td>
</tr>
<tr>
<td>Lack of Support from the Government</td>
<td>24</td>
<td>12.5%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Lack of business support and training</td>
<td>24</td>
<td>12.5%</td>
<td>34.3%</td>
</tr>
<tr>
<td>High interest rate</td>
<td>21</td>
<td>10.9%</td>
<td>30.0%</td>
</tr>
</tbody>
</table>

Total: 192 | 100.0% | 274.3%

a. Dichotomy group tabulated at value 1.

Figure: 4.19 Threats
In this survey, SME owners were asked to state some major threats to the development of their business. From the above table, it is clear that lack of business support/ training (12.5%), lack of support from the Government (12.5%) are the two most significant problems according to the perception of SME owners. Subsequently followed by Lack of Infrastructural facilities(12.%), Procedural difficulties in starting a company(11.5%), high interest rate(10.9), Lack of management skill(10.4%), lack of availability of finance(8.9%) and high competition(8.3%) are seem to be the major threats to the development of SMEs. However a small number SMEs indicated that there was also some problems with an access to market (5.2%),Lack of market information(4.7%) and Less demand from the public(3.1%).

**4.4.9 Problems in accessing finance**

Q(12): Tick among those factors which prevent SMEs/ entrepreneurs borrowing from Financial institutions (Please tick more than one if necessary)?
Table: 4.26

<table>
<thead>
<tr>
<th>Preventing factors</th>
<th>Responses</th>
<th>Percent</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of collateral</td>
<td>24</td>
<td>20.3%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Lack of track records</td>
<td>16</td>
<td>13.0%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Newness in the business (start-up)</td>
<td>11</td>
<td>9.3%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Lack of entrepreneur skills</td>
<td>20</td>
<td>16.9%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Poor documentation</td>
<td>17</td>
<td>14.4%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Corruption</td>
<td>16</td>
<td>13.6%</td>
<td>22.9%</td>
</tr>
<tr>
<td>High interest rate</td>
<td>14</td>
<td>11.9%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Total</td>
<td>118</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.

Figure 4.20 Preventing factors

This study identified some major problems encountered by SMEs in accessing finance. The findings revealed that the lack of collateral constituted 20.3% and it reported as their main
problem, 16.9% of responses cited lack of entrepreneurial skills and 14.4% of respondents reported for poor documentation. To similar extent total 27.2% of respondents has some problems with lack of track records (13.6%) and corruption (13.6%). High interest rate and newness in the business accounted 11.9% and 9.3% of responses respectively.

On the contrary, evidence of literature shows that according to Weaver and Pak, 1990; credit unworthiness and transaction costs are the major problems that reduce access to credit.

### 4.4.10 Most preferred type of external financing

Q(13): If you need additional financing to realize your growth ambitions, what type of external financing would you prefer most?

Table: 4.27

<table>
<thead>
<tr>
<th>Most preferred finance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Bank loan</td>
<td>38</td>
<td>54.3</td>
<td>54.3</td>
<td>54.3</td>
</tr>
<tr>
<td>Loan from MFIs/NGOs</td>
<td>20</td>
<td>28.6</td>
<td>28.6</td>
<td>82.9</td>
</tr>
<tr>
<td>Finance from credit unions/Co-operative banks</td>
<td>8</td>
<td>11.4</td>
<td>11.4</td>
<td>94.3</td>
</tr>
<tr>
<td>Finance from other sources</td>
<td>4</td>
<td>5.7</td>
<td>5.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Based on the survey it is clear that the bank loans (54.3%) are the most preferred type of external financing utilized by SMEs in-order to achieve their growth ambitions. The next most popular source of external financing was micro financing or credit from Non-governmental organizations, which preferred by 28.6% of SMEs. 11.8% favoured credit unions and only 5.7% preferred other sources (Private individuals, family & friends) for realizing their growth and developments in the future.

**4.5 Financial institutions**

Q(14) : Which of the following describes your FIs?

In this study researcher interested to study following type of Financial institutions ; Commercial banks and Micro financial institutions (NGOs), and credit unions. The survey includes 46.15% respondents from commercial banks, 30.77% respondents from MFIs/NGOs and 23.08% from credit unions.
Table: 4.28 financial institutions

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>12</td>
<td>46.2</td>
<td>46.2</td>
<td>46.2</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>8</td>
<td>30.8</td>
<td>30.8</td>
<td>76.9</td>
</tr>
<tr>
<td>Micro financial institutions/NGOs</td>
<td>5</td>
<td>23.1</td>
<td>23.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Credit unions/Co-operative banks</td>
<td>5</td>
<td>23.1</td>
<td>23.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.22 financial institutions
4.5.1 Gender of respondents

Table: 4.29 Gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Male</td>
<td>17</td>
<td>65.4</td>
<td>65.4</td>
</tr>
<tr>
<td></td>
<td>female</td>
<td>9</td>
<td>34.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Out of 26 respondents surveyed from financial institutions (commercial banks, micro financial institutions and credit unions) 65.4% were male and 34.6% were females.

4.5.2 Age of respondents

Table: 4.24 Age of respondents
According to the above findings, about 19.2% percent of the respondents were aged between 18 to 30 years, followed by 23.5 percent whose age was between 41-50 years, 26.9 percent aged between 31 to 40 years and 30.8% represented above 51 years.

### 4.5.3 Type of products and services offered

Q(15): What is the major products/services) that your organization offers to SMEs, (Please tick on the appropriate several answers possible)
Table 4.31 products and service offered by financial institutions

<table>
<thead>
<tr>
<th>Products &amp; servicesa</th>
<th>Responses</th>
<th>Percent</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term loan less than one year</td>
<td>26</td>
<td>15.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Long term loan over one year</td>
<td>23</td>
<td>13.9%</td>
<td>88.5%</td>
</tr>
<tr>
<td>Saving &amp; bank overdraft facilities</td>
<td>26</td>
<td>15.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Training and business supports</td>
<td>22</td>
<td>13.3%</td>
<td>84.6%</td>
</tr>
<tr>
<td>Credit information systems /external rating systems</td>
<td>10</td>
<td>6.0%</td>
<td>38.5%</td>
</tr>
<tr>
<td>Letter of credit and bank guarantees</td>
<td>12</td>
<td>7.2%</td>
<td>46.2%</td>
</tr>
<tr>
<td>Credit cards &amp; Trust receipts</td>
<td>18</td>
<td>10.8%</td>
<td>69.2%</td>
</tr>
<tr>
<td>Internet banking and foreign exchange facilities</td>
<td>9</td>
<td>5.4%</td>
<td>34.6%</td>
</tr>
<tr>
<td>Payment to employees &amp; suppliers</td>
<td>16</td>
<td>9.6%</td>
<td>61.5%</td>
</tr>
<tr>
<td>Leasing &amp; Factoring</td>
<td>4</td>
<td>2.4%</td>
<td>15.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>166</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>638.5%</strong></td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.
Based on the above findings, financial institutions especially commercial bank deliver all kind of products to SMEs. 15.7% reported short term loans, 13.9% reported long term, 10.8% for credit cards & Trust receipts, payment to employees & suppliers accounted 9.6%. Letter of credit and bank guarantees, accounted 7.2%, payment to employees & suppliers indicated 9.6% and 6% accounted credit information systems / external rating systems, 5.4% of respondents reported internet banking and foreign exchange facilities finally, the leasing and factoring reported 2.4% of total respondents.

Based on the above facts, it is clear that more loan products offered are mostly in short-term nature. After the demand of loan products, business credit cards are also quite popular. Even
though factoring and leasing (2.4%) are quite popular all over the world, they gained less importance among surveyed financial institutions.

4.5.4 Experience in dealing with SME loans

Q(16): Level of experience in dealing with SME loan requests?

Table: 4.32 Level of experience in dealing SME loans

<table>
<thead>
<tr>
<th>Level of experience in dealing SME loans</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Very experienced</td>
<td>16</td>
<td>61.5</td>
<td>61.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Experienced</td>
<td>9</td>
<td>34.6</td>
<td>34.6</td>
<td>96.2</td>
</tr>
<tr>
<td>Not much</td>
<td>1</td>
<td>3.8</td>
<td>3.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.26  Level of experience in dealing SME loans
Just over half of the respondents (61.5%) claimed to have experience in dealing with SMEs and 34.6% were experienced but only 3.8% respondents opined that they have not much experience in dealing with SME finance.

4.5.5 Obstacles

Q (17): What do you think are the important obstacles that limit your organizations involvement with SMEs?

Table: 4.33 Obstacles to financial institution’s involvement with SMEs

<table>
<thead>
<tr>
<th>Obstacles</th>
<th>Responses</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure of SMEs to meet financial requirements</td>
<td>13</td>
<td>18.1%</td>
</tr>
<tr>
<td>Legal and contractual environment</td>
<td>15</td>
<td>20.8%</td>
</tr>
<tr>
<td>Lack of adequate demand</td>
<td>13</td>
<td>18.1%</td>
</tr>
<tr>
<td>High competitions in the financial sector</td>
<td>11</td>
<td>15.3%</td>
</tr>
<tr>
<td>Financial Regulations</td>
<td>11</td>
<td>15.3%</td>
</tr>
<tr>
<td>Newness or limited capabilities of FIs</td>
<td>9</td>
<td>12.5%</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.

Figure: 4.27 Obstacles to financial institution’s involvement with SMEs
The above findings revealed that 20.8% of respondents considered legal and contractual environment as the major obstacle in SME lending. SMEs lack of demand (18.1%) and failure of SMEs to meet financial requirements are also considered as limiting factors. 30.6% of respondents were equally mentioned that financial regulations and high competitions as two pressing obstacles in mobilizing SME finance. The remaining 12.5% cited newness or limited capability of financial institutions as the most pressing problem to expand credit to SMEs.

4.5.6 Prioritization while giving loans

Q(18): How does your organization prioritize small and medium enterprises (SMEs) in the Provision of loan? (Tick to the appropriate situation)

Table: 4.34 Prioritization of loans to SMEs
Of the surveyed financial institutions, about 92.3% regard the SME as very important and giving
the first priority. Only 7.7 % regarded SME as second priority group as compared to other
enterprises especially large enterprises. Ignoring the credibility of responses, there has been some
evidence that the banks are not biased against the SMEs in making loans.

**4.5.7 Factors prevent SME operators in borrowing**

Q(19): What do you think are the main factors that prevent SMEs operators to borrow from
financial institutions?
Table: 4.35 Factors that prevent SME operators to borrow from FIs

<table>
<thead>
<tr>
<th>Preventing Factors</th>
<th>Responses</th>
<th>Percent</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of collateral</td>
<td>10</td>
<td>11.5%</td>
<td>38.5%</td>
</tr>
<tr>
<td>Poor documentation</td>
<td>11</td>
<td>12.6%</td>
<td>42.3%</td>
</tr>
<tr>
<td>Non-feasible projects</td>
<td>13</td>
<td>14.9%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Newness in the business</td>
<td>5</td>
<td>5.7%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Lack of strong database</td>
<td>10</td>
<td>11.5%</td>
<td>38.5%</td>
</tr>
<tr>
<td>Belief of SMEs that banks are not lending</td>
<td>15</td>
<td>17.2%</td>
<td>57.7%</td>
</tr>
<tr>
<td>Lack of entrepreneurial skills</td>
<td>14</td>
<td>16.1%</td>
<td>53.8%</td>
</tr>
<tr>
<td>High interest rate</td>
<td>9</td>
<td>10.3%</td>
<td>34.5%</td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
<td>100.0%</td>
<td>334.6%</td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.

Figure: 4.29 Factors that prevent SME operators to borrow from FIs

Respondents from financial institutions were asked to state main factor that prevent SMEs operators to borrow from FIs. 17.2% and 16.1% of respondents indicated SME’s perception
towards bank lending and lack of entrepreneurial skills are the major factors that prevent SMEs from borrowing. 14.9% of respondents mentioned non-feasibility of projects as their limiting factor. Lack of collateral (11.5%) and lack of strong data base (11.5%) were highlighted by some credit institutions as major constraints for SMEs credit. The remaining 16% represented newness in the business (5.7%) and high interest rates (10.3%) are the major factors that hinder SME’s access to credits.

4.5.8 Drivers of FIs involvement with SMEs

Q(20) What are the key factors driving your organization’s desire to become involved with SMEs?

Table: 4.36 Drivers of FIs involvement with SMEs

<table>
<thead>
<tr>
<th>Driving factors</th>
<th>Perceived profitability</th>
<th>Exposure in other segments</th>
<th>Social objective</th>
<th>Attracting new customers</th>
<th>Financial innovations</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>14</td>
<td>7</td>
<td>13</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Percent</td>
<td>24.1%</td>
<td>12.1%</td>
<td>22.4%</td>
<td>19.0%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Percent of Cases</td>
<td>53.8%</td>
<td>26.9%</td>
<td>50.0%</td>
<td>42.3%</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.

Figure: 4.30 Drivers of FIs involvement with SMEs
It can be seen that perceived profitability (24.1%) is one of the major decisive factor in FIs decision to target SME segment. 22.4% of credit institutions are lending with a social objective. It concerned with the economic development and social benefit. Financial innovations (22.4%), Attracting new customers (19%), exposure in other segments (12.1%) were also cited as important drivers for increased SME involvement.

4.5.9 Usefulness

Q 21. Please indicate your opinion about the usefulness of following policies in supporting SMEs access to banking sources?

The respondents from banks and other financial institutions were asked to rate the usefulness of following policy measures in order to support SMEs access to finance.

a) Interest subsidies

Table: 4.37 Interest subsidies
84.6% of respondents were recommended interest subsidies would be very useful. Only 4% recommended the same with some use.

(b) Technical support

Table :4.38 Technical support

<table>
<thead>
<tr>
<th>Usefulness of Technical support for SMEs</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Very useful</td>
<td>19</td>
<td>73.1%</td>
<td>73.1%</td>
<td>73.1%</td>
</tr>
<tr>
<td>Of some use</td>
<td>5</td>
<td>19.2%</td>
<td>19.2%</td>
<td>92.3%</td>
</tr>
<tr>
<td>Not useful</td>
<td>2</td>
<td>7.7%</td>
<td>7.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

73.1% Respondents reported technical supports would be very useful for SMEs. 19.2% recommended the same with some use and rest of them (7.7%) opined that there would be no use in providing technical guidance to SMEs.

(c) State financial supports

Table:4.39 State financial supports
80.8% indicated state financial supports as very useful, 15.4% were of some use and 3.8% feel there would be no use.

(d) Policies encouraging commercial banks in lending SMEs

Table 4.40 Policies encouraging commercial banks in lending SMEs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>21</td>
<td>60.8</td>
<td>80.8</td>
<td>80.8</td>
</tr>
<tr>
<td>Very useful</td>
<td>19</td>
<td>73.1</td>
<td>73.1</td>
<td>73.1</td>
</tr>
<tr>
<td>Of some use</td>
<td>7</td>
<td>26.9</td>
<td>26.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Not useful</td>
<td>1</td>
<td>3.8</td>
<td>3.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

73.1% of respondents reported policies supporting commercial banks to lend would be very useful. The remaining 26.9% indicated it with some use.

4.5.10 Strategies to improve accessibility of finance to SMEs

Q22. What strategies need to be adopted by your organization to facilitate SMEs operators or entrepreneurs to qualify for loans?

The respondents from the financial institutions were asked to suggest some strategies for improving SMEs access to finance. Some of the major strategies mentioned includes introduction of entrepreneurship trainings to borrowers, innovative credit guarantees scheme, increase credit outreach strategies, group lending strategies, commencement of grace period strategies and reduction of interest rates.
4.5.11 Opinion on Government support

Q 23. Do you suggest that government should encourage and create opportunities for small business in your state?

Table 4:41 Opinion on Government support

<table>
<thead>
<tr>
<th>Should the Government encourage and create opportunities for SMEs?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid, Yes</td>
<td>96</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.31 Opinion on Government support

Both the respondents from SMEs and FIs were asked to state their opinion on government support. Notably all respondents indicated that government should encourage and create opportunities for small and medium scale enterprises.
4.5.12 Should the government support the SME

Q 24. How would you rate the support rendered by the Government of India to SMEs?

Table 4.42 Rating on government support

<table>
<thead>
<tr>
<th>Rating</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Very good</td>
<td>9</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Good</td>
<td>16</td>
<td>16.7</td>
<td>16.7</td>
<td>26.0</td>
</tr>
<tr>
<td>Neutral</td>
<td>22</td>
<td>22.9</td>
<td>22.9</td>
<td>49.0</td>
</tr>
<tr>
<td>Slightly good</td>
<td>21</td>
<td>21.9</td>
<td>21.9</td>
<td>70.8</td>
</tr>
<tr>
<td>Not good at all</td>
<td>28</td>
<td>29.2</td>
<td>29.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure: 4.32 Rating on government support
Based on the above findings, most of the respondents opined that the support provided by the government is not good at all (29.2%). 22.9% indicated that service offered by the government is neutral and 21.9 were of the opinion that government supports are slightly good. Moreover, 16.7% and 9.4% indicated that support provided by the government towards SMEs are good.

**4.6 Hypothesis: Conclusion**

The researcher analyzed the above mentioned questions 7,8,8(a) and 9 inorder to evaluate the validity of this hypothesis. Findings from section () shows that out of 70 surveyed SME owners 64.3% were applied for external finance, notably 38 in 45 SMEs were successful in their loan applications. Only 3% were rejected and 4% were declined. Secondly, When the SMEs were asked to mention their major purpose of borrowing, most of them indicated that their main aim was to meet working capital and start-up funds. These two constitutes just over half of the responses (53.3%). business expansion and buying machineries are their second significant needs. all other reasons such as training/staff development, marketing, research and development and other reasons constitutes only 24% of the total loan beneficiaries.

The researcher further assessed the impact of loans on SMEs various growth indicators such as profitability, sales revenue and its physical and financial assets. The study proves that 70.6% of respondents indicated positive changes in their sales revenue after received loans. 64.7% of respondents reported their significant increase in business profits. 67.6% of respondents cited their improvements in market coverage. To similar extent, both physical assets (61.8%) and financial assets (61.8%) are also showed positive improvements in SME business. In addition, when SME owners were asked to mention one of their most preferred form of financing in order to realize their future growth. 54.3% preferred commercial banks, 28.6% preferred MFIs 11.8% preferred credit unions and only 5.7% preferred the ‘other sources’ (private individuals, family, friends and other). Based on the above all findings the researcher came to an assumption that financial assistance delivered by commercial banks, MFIs and credit unions are seem to be very helpful for SMEs. Their contributions appeared to be encouraging towards the growth and
development of this segment. So, here the null hypothesis is rejected, and the alternate hypothesis which says the financial institution makes significant contribution to the growth and development of SME is accepted.
CHAPTER - 5

CONCLUSION

This study aims at investigating the views of SME owners and selected financial institutions, in Uttar Pradesh (a state located in the northern India) in-order to evaluate SMEs access to finance in India. To facilitate deeper understandings, Section two, provides a brief review of the literature on the role of SMEs in the economy, as well as why such sector may fail to develop at an adequate level. Using data from a survey questionnaire, Section 3 then makes some compilations to find out the answers to those questions how significant access to external finance, particularly credits from commercial banks, Micro financial institutions/NGOs and credit unions is for SMEs, and what factors hinder such access. Above all, researcher attempts a modest approach to find out whether or not financial institution makes significant contribution to the development and growth of Indian SMEs.

General characteristics regarding respondents from SMEs revealed that out of 70 SME owners interviewed, 25.7% of the respondents were females while 74.3 % were males. Out of 26 respondents surveyed from financial institutions (commercial banks, micro financial institutions and credit unions) 65.4% were male and 34.6% were females. This study reveals more male participation in the operation of SMEs and financial institutions compared to female. Also, this study indicates that more SMEs in the surveyed region are engaged in service sector than in manufacturing, and commerce & trade. Survey also establishes the popularity of sole proprietorship among Indian SMEs.

Through this study the answers for all the research questions were obtained;

*RQ1: Whether or not financial institutions are providing adequate credits to SMEs?*

The main objective of this question is to ascertain whether SMEs are getting adequate amount of lending from financial institutions.

Based on all the information provided by respondents from financial institutions, it is clear that Most of them have experience in dealing with, and are not biased against, SMEs’ loan requests.
Especially commercial banks seem to be more active in SME lending. It provides more than half of finance among surveyed SMEs. The findings showed that a substantial proportion of respondents (64.3%) applied for loans from Banks and other financial institutions. Around 38 in 45 SMEs who applied for loan from financial institutions were successful and only 3% were rejected. But 35.7% of the respondents didn’t make any loan from bank or financial institutions.

But when considering the total loan application and subsequent loan success rate, the researcher came to a conclusion that SME are getting adequate credits from banks and from other financial institutions mentioned in this study. In order to better understand the reason behind SMEs lack of credit demand, they were specifically asked to provide reasons for not seeking credit. A large proportion of SMEs who have not looked for credit suggests that this is due to possible rejection and also due to a belief that banks are not lending. At the same time, when the respondents from financial institutions were asked to mention their major challenge in lending, most of them mentioned lack of demand as their major challenge in lending.

SMEs perception towards institutional lending poses a great challenge towards access to adequate finance. In order to alleviate this government intervention is required at a local level to increase the awareness programs and thereby facilitating a good communication channel among business enterprises and respective financial providers.

The analysis of available background information and of the responses from financial institutions clearly indicates the increased importance and growing opportunities of SME segment. This challenges the common belief that there is no interest in lending to SMEs. On the contrary, it is noted that financial institutions appear eager to better service this market segment given its perceived profitability and financial innovation opportunities. In general, credit institutions are offering a fairly standard menu of products to SMEs that include long and short term loans, savings, overdraft, credit and bank guarantees, accounts and loans for working capital or investment. Internet banking and business credit cards are also quite popular services offered to SMEs.

*RQ2: what are the problems encountered by the Small and Medium industrialists in obtaining finance from financial institutions in India?*
The rational for this question is to assess the financial based problems facing small and medium enterprises in India. This survey identified some major problems of SMEs preventing them from accessing finance. From demand perspective (SMEs), it is noted that lack of entrepreneurial skills, lack of collateral, poor documentation, lack of track records and high interest rates are some important obstacles in obtaining finance. From financial institutions perspective it is clear that, lack of entrepreneurial skills, SMEs perception towards bank lending, non-feasible projects and lack of collateral are some of the major factors preventing SMEs from borrowing loan. In both the cases, lack of skilled entrepreneurs is an important constraint in lending. SMEs considered lack of collateral as its major hindering factor. On the contrary, financial institutions considered it as the fourth significant preventing factor while considering loans. This further supported the view that the FIs, are looking for strong entrepreneurial skills and feasible projects rather than collaterals. In this regard the researcher’s perception is that financial institutions must fulfil the minimum requirements of maintaining the security and guarantee as per their prescribed credit policies and guidelines. But in a few cases, some FI are demanding excessive security for their safeguard. Thus, the complaint of the borrowers is significant for those cases.

Moreover, respondents from credit institutions highlighted some major obstacles to further expanding SME lending: which includes lack of demand, high competitions in the financial sectors, financial regulations, legal and contractual environment as well as recent policy measures to cool the economy that provides conflicting signals to financial markets as to the government’s intentions. But the researcher believes that financial institutions will expand SME lending on their own accord – in spite of the presence of important constraints when considering the attractiveness and perceived profitability of this market.

After all the above findings, the researcher finds that on the issue of SME financing, the problem arises mainly due to high risk perception of FIs about small and medium scale industries. And also due to borrower’s misconception about collaterals & different formalities required by the FIs in approving loan. In spite of above all the problems, researcher found that most of the FIs are very interested to finance small and medium scale businesses in spite of above mentioned challenges.
RQ3: What is the effectiveness of these financial organizations in solving problems that are being faced by SME owners in India?

This question intended to evaluate the effectiveness of financial institutions in solving financial based problems of SMEs in India. Data obtained from primary and secondary research reveals that finance is an important requirement for the development and growth of business. Goldsmith (1969) and McKinnon (1973) all saw the significance of the finance growth in the process of understanding economic growth, is already mentioned in the literature review of this study. Well-functioning and sustainable mechanisms for SME financing require well founded institutional settings. Bhattacharya, et al. (1997) argue that formal financial institutions (banks) are unwilling to lend to SMEs since investing in SME activities is considered by banks to be very risky. So, the Lending institutions must improve their ability to provide financial services to SMEs through efficient mechanisms that lower costs and minimize their risk exposure. In this research, financial institutions were asked to suggest some policy measures in order to alleviate the financial based problems of SMEs and their easily accessibility of credits. As a result they suggested some important measures like, entrepreneurship training to borrowers, innovative credit guarantee schemes, increased credit outreach strategies, reduction of interest rates, commencement of grace period strategies, and solidarity of group lending, credit rating and credit information services to SMEs and also some awareness programs related to services and products of banks and other financial bodies.

It is not possible to tackle all the problems that are being faced by Indian SMEs through the only efforts of financial institutions. It is important that the government should also provide adequate help and support for the development of SMEs. But the survey revealed supports from the government still are not satisfied to both SME owners and financial institutions in mobilizing SME finance. Also this survey considered how some Government policies might best tackle failures in the SME’s accessibility of finance from credit institutions especially from commercial banks. So this study suggested that existing government programs should be further optimized by focusing on developing new lending instruments. Respondents from banks and other financial institutions were mentioned the importance of some state financial funds, government subsidies, technical supports and some major policies encouraging commercial banks to lend SMEs.
The above-mentioned policy measures necessitate a well-coordinated and comprehensive strategy to promote institutional financing to SMEs. A suitable policy response, potentially encompassing some of the policy actions described above requires coordination and information exchange across several parts of the Indian government and credit institutions.

5.1 Validation of laid hypothesis

HI: Financial institutions (FIs) make significant contribution to the growth and development of SMEs in India

H0: Financial institutions (FIs) make no significant contribution to the growth and development of SMEs in India

The researcher has defined the above hypothesis for to evaluate the extent of SME finance provided by three main pillars of financial system such as commercial banks, MFIs/NGOs and credit unions. And the main aim of this hypothesis was to determine if FIs are making any significant contribution to the development and growth of SMEs. The results of the survey confirmed that the there is a positive relationship between institutional finance and SMEs growth.

But a number of theorists disagrees the role of the financial sector in economic growth. As already mentioned in the literature review, one of the Nobel Laureate Robert Lucas (1988, p.6) dismisses finance as an “over-stressed” determinant of economic growth. As shown in the literature review section Joan Robinson (1952, p. 86) argued that "where enterprise leads finance follows." From this perspective, finance does not cause growth; finance responds to changing demands from the “real sector’ ‘So the hypothesis tested is slightly contradicts the above theories and views.

In-order to test the hypothesis for this study, the SME owners were asked to indicate their experience on loan application and loan success rate. Out of 70 surveyed SME owners 45(64.3%) were applied for finance from banks and other financial institutions. 38 in 45 SMEs were successful in their loan applications. It is also significant to note that most of them were applied finance for their start–up and working capital needs. Purchase of machineries/equipment and business expansion plans are also indicated as their main reasons for receiving loan .In order
to ascertain the major contribution of FIs and its assistance, SMEs were asked to report their achievements in profitability, sales revenue, market coverage, physical assets and financial assets (cash, bond and others). The responses from most of the SME owners were positive. They all indicated subsequent improvements for all the aforementioned growth factors. Lastly the respondents were asked to indicate their most preferred financing in-order to achieve future growth ambitions. Majority of respondents preferred loans from commercial bank, MFI, and credit unions whereas, only minority of respondents chosen ‘other sources’ (private, family, friends and other).

Based on all the above findings, it is clear that FIs make significant contributions to the growth and development of SMEs. So the researcher rejected the null hypothesis and accepted the alternate hypothesis which says the financial institution makes significant contribution to the growth and development of SME in India.

5.2 Conceptual Framework

After conducted an analysis of primary and secondary research this section proposes a conceptual framework on problems besetting SMEs and a possible way forward within the scope of this research. In-order to analyze the extent of SME financing, the researcher considers Commercial bank, microfinance and credit unions are the most important lending institutions. The literature review and also the primary research reviewed some of the hampering factors act as the main barriers for SMEs in obtaining finance from the financial market. Lack of Proper securities, Lack of entrepreneurial skills; High interest rates are some of them. In-order to eliminate these barriers, the government can induce various financial reforms through FIs which includes entrepreneurial training, reduction of interest rates, introduction of credit guarantee schemes and other form of lending in order to increase the credit accessibility and data base for Various SMEs. Moreover the government can improve the regulatory settings and make an effective infrastructure that has effects for SMEs as well as financial institutions competitiveness. These approaches are vital for the growth of SMEs particularly in the issue of financing.
Impeding Factors

Financial Reforms

Financial Institution

NGO or MFIs

Commercial Banks

Credit Unions

SMEs

- Increase employment opportunity
- Improved income
- Better living standard

Finance

Financial innovation

Financial Reform

Government

Impeding Factors
Also, the framework recognized whether and how the access to credit of SMEs business owners has been affected by financial markets from reforms, for instance, Micro finance can be considered as one of the reform in providing loans to poor. This kind of reform essentially consists of institutional innovation on the supply side. In this case financial reform became a cause to increase job opportunities which will result in improved income and living standard, healthier payment also will leads to improved sales, financial assets, market coverage and productivity
Recommendations

"Study the past if you would define the future”

-Confucius

Improving on SME-specific characteristics

On the basis of primary and secondary research, the researcher identified that the lack of access to loan is attributable either to the specific characteristics of the SMEs applying for the loan, or the lack of awareness that the financing is available. In these instances, the interventions will have to be targeted to deal with these specific SME characteristics, notably: the lack of collateral the lack of information available with respect to the business, the poor level of entrepreneurial skills and managerial competence, the failure to access financial services, including credit, due to various perceptions small business owners have of the requirements needed for access or lack of awareness of the facilities available.

Some of the key SME characteristics are discussed below.

Financial education and Knowledge about financial services

The research revealed that SME owner’s perception towards lending is the major obstacle preventing them from borrowing loans. SMEs are mostly forming the view that banks are not lending from the information they receive from the media, business groups or the experience related by peers rather than from direct experience. Banks should encourage SMEs to formally apply for credit or, at a minimum, direct them to effective funding services within the bank to support them with their application. Interventions should therefore focus on enhancing financial education and improving knowledge about financial services among SMEs. By doing so, the financial institutions will benefit by increasing awareness and the uptake of their products/services thereby increasing their incomes and profitability.

Entrepreneurial training programs
This research shows that there is a lack of entrepreneurial skills and strong managerial competence among SMEs. Most of the businesses indicated that the supply of finance is no longer the most significant issue facing them. But the lack of entrepreneurial skills in-order get adequate finance is now cited as the major challenge. So the interventions should essential to focus on providing training and courses that will improve the human resource capacities in this regard. The Government is therefore encouraged to continue building on current programs and establishing new ones if wanted, to improve the levels of entrepreneurial skills and managerial competence of small business owners. Moreover, government should also emphasis on providing vocational training programs for SME entrepreneurs in rural areas to increase their financial knowledge, managerial capacity, so that these entrepreneurs will be able to understand loan processing procedures and establish proper accounting system Financial institutions should also conduct regular staffs training to make them capable to provide prompt and useful service to SME clients.

**Loan and mutual guarantee schemes**

The research finding shows that the major barrier of SME owners in accessing finance is their lack of collateral. In -order to limit the costs of default, a bank or a financial institution typically requires a loan applicant to offer a certain amount of collateral to cover the loan amount. However the results from this survey revealed that the most significant problem for SME entrepreneurs in borrowing is that they have little or no physical security to offer as collateral. To supplement for collateral, there are a number of types of insurance available to SMEs that can reduce the lenders risk and potentially improve SME access to credit. Among these, researcher specially recommends loan or mutual guarantee schemes .This will play an important role in SMEs access to credit and eliminating collateral problems. The loan guarantee schemes established by government or financial institutions will also be very helpful to cover the losses incurred if borrower defaults on loans, thus reducing the perceived risk of SMEs to the financial institutions. The main purpose of these schemes are to assist small entrepreneurs with good projects but little collateral to attain loans and also to encourage banks to overcome their risk fear of lending to SMEs.
An effective legal and regulatory framework

During the primary research most of the respondent from financial institutions reported the legal and contractual environment as their major obstacle in lending. So the researcher recommends an effective legal framework in-order to encourage the credit institutions in SME lending process. Moreover, an effective legal and regulatory framework promotes competition by avoiding excessively restrictive licensing requirements and allows international and regional banks with better SME lending tools to enter the market. Competition among financial sector players can be promoted further by familiarizing technological platforms in key areas, facilitating a variety of financial products and services, driving down the costs of financial access, and reaching previously unexploited markets.

Effective government support mechanisms and evaluations of current Government programs

The survey revealed effective implementation of government policies and also its delivery of results to the satisfaction of the SMEs and financial institutions are remaining much below than desired. There is a need to critically analyse the existing policies and measures to assess the limitations and gaps in bringing the desired outputs. Where necessary, the support programs may need to be redesigned to make them more appropriate for the sector they are intended to serve. As part of the evaluation, an assessment can then be made as to the effectiveness of the programs. The gap in SME support programs may not lay so much in the non-availability of support programs, but rather the manner in which the available schemes are managed and administered. There is need to minimize the levels of bureaucracy embedded in the programs. The governments also need to take measures to further simplify the procedures, improve the financial regulatory environment in general and accounting standards in specific, predominantly for SMEs.
CHAPTER- 6

Self- Reflection on own learning and performance

“By three methods we may learn wisdom: first, by reflection, which is noblest: second, by imitation, which is easiest:; and third, by experience, which is the most bitter”

-Confucius

Introduction
Jennifer Moon has defined reflection as: a form of mental processing – a form of thinking – that we use to fulfil a purpose or to achieve some anticipated outcome. It is applied to relatively complicated or unstructured ideas for which there is no obvious solution. (Moon, 1999a, 23; Moon, 1999b, 10). As a result of reflection a variety of outcomes can be expected. Especially, reflection might well offer material for further reflection, and most significantly, lead to learning and, perhaps, reflection on the process of learning, (Moon, 1999b, 99).

This concluding chapter gives an outline on the learning process that was undertaken during the course of the research while recognizing skills attained to assess the overall performance of the researcher. Kolb (1984) learning style, Neil Flemings and Honey & Mumford (1986) Typology of learners are used for this purpose.

7.2 Learning style

7.2.1 Theoretical Background

According to Kolb (1984, 38)"Learning is the process whereby knowledge is created through the transformation of experience" "An understanding of learning styles is a necessary component in the groundwork of an emancipatory pedagogy"(Fielding 1994, 394).

The core of Kolb's four-stage model is a simple portrayal of the learning cycle which shows how experience is transformed through reflection into concepts, which in turn are used as guides for
active experimentation and the choice of new experiences. Kolb refers to these four stages as: concrete experience (CE), reflective observation (RO), abstract conceptualization (AC) and active experimentation (AE). They follow each other in a cycle (Figure 1). The cycle may be entered at any point, but the stages should be followed in sequence. The learning cycle thus provides feedback, which is the basis for new action and evaluation of the consequences of that action. Learners should go through the cycle several times, so it may best be thought of as a spiral of cycles.

In brief Kolb conceptualizes the process of action research as "a spiral of action and research consisting of four major moments: plan, act, observe and reflect " (Zuber-Skerritt 1992b, 11)

Figure 6.1: Kolb and Fry on learning styles (Tennant 1996)

Kolb (1984) proposes that students develop a preference for learning in a particular way. He identifies four learning styles each of which is related with a different way of solving problems. First, learners, who have their extreme strength in the practical application of ideas, are called “convergers” (Kolb, et al., 1974). Convergers - depend heavily on hypothetical-deductive reasoning. In contrast, divergers view situations from many perspectives and rely heavily upon thinking and generation of ideas. The third group is assimilators; they make use of inductive
reasoning and have the capacity to create theoretical models. Finally, the fourth type of Kolb’s et al. learning style is the “accommodator” who carries out plans and experiments and adapt to immediate circumstances.

Based on Kolb’s et al. theory, Peter Honey and Alan Mumford (1988) have identified four main learning style preferences: activist, reflector, theorist and pragmatist (Cassia Silva Santiago 2003). Activists are experience driven: they tend to act first and consider the consequences afterwards.

Figure 6.2: Honey &Mumford; learning styles diagram

Reflectors perform a comprehensive compilation and detailed analysis of information about experiences. They review and ponder on experiences and look at them from different viewpoints. But in contrast, theorist review problems following a step-by-step upward logic. They tend to be
perfectionist and order things in a rational framework. The final category is pragmatist, who is expert in trying ideas, theories and techniques to see if they work. Their philosophy is” if it works, it is good”.

Moreover, Fleming and Mills (1992) suggested four learning styles generally known as VARK modalities that appeared to reflect the experiences of Individuals. The ellipsis VARK stands for Visual, Aural, Read/write, and Kinesthetic sensory modalities that are used for learning information. Visual learners prefer depiction of information’s in graphs, diagrams, charts and other devices. They are good at learning things by seeing information’s, graphs and other diagrams. Aural mode describes a preference for information that is "heard or spoken.” Read and learner learn things best when information displayed as words. The final modality is Kinesthetic. The people who prefer this mode are connected to reality, "either through concrete personal experiences, examples, practice or simulation" [Fleming & Mills, 1992, pp. 140-141].

The models listed above can prove applicable in some situations and not applicable in others. A critical and careful approach is obviously required when deciding which theory one should follow. Critics say there is no evidence that recognizing an individual student's learning style produces better outcomes. Even though people have their own preferred learning styles, it is useful to be aware of other styles and how to strengthen weaker styles. Using various learning styles will help strengthen learning experiences.

7.2.2 Reflection on own learning styles

When considering Kolbs learning styles, the researcher would classify herself as a converger. The name comes from the fact that they are able to find a practical use for ideas and theories. They grasp the experience through abstract conceptualization and transform it through active experimentation” (Claxton and Murrell, 1987: 27).The researcher always learns best through actively experimenting like to do something with the information she has. So it is very easy for the researcher to resolve problems and take choices in situations demanding practical applicability of the concepts.

The reason behind the choice of researcher ‘study topic is also related to this practical applicability. As a person who would love to become an entrepreneur, researcher believes that all
ideas gained from this research have a good range of practical applications in her life when establishing her own enterprise in the future.

According to Honey and Mumford’s concept of learning styles, the researcher identified her learning style as a Pragmatist. Pragmatists are best in trying ideas, theories and techniques to see if they work. The researcher always tries to see the positive side of new ideas and like to experiment with applications. Therefore the researcher’s philosophy is ‘if it works, it is good’.

From Neil Fleming learning model, researcher considered herself as a visual and a read/write learner. In visual learning style researcher learn best from visual displays including diagrams, illustrated text books, diagrams and graphs. She also prefers to take detailed notes to absorb the information. In read or write learning style, researcher likes reading and writing in all its forms and prefers information displayed as words.

7.3 Assessment of Research Process

7.3.1 Process
The researcher went through a long reflective process before choosing the final research topic. Besides seeking a new, original and not still investigated topic, the main objective was finding something that was of researcher’s interest and that was suitable to academic purposes at the same time. At first it was a tedious job to find a topic of relevance, because the researcher had no experience with creative writing before and was not confident of her abilities. Researcher had to choose a topic for this project few months earlier, and to submit an idea generation sheet of the thesis. Given the time and effort required to produce the dissertation, researcher wanted to feel that there was at least the possibility for it to serve some wider purpose. With this aim, researcher has read a number of articles and books. After conducting some studies, the researcher selected SME finance as her dissertation topic. Having done some background reading, researcher thought that the way she was approaching the subject matter could address some issues of practical relevance. The researcher believes that the Small and medium enterprises play a very important role in the economy of any country and it is more so in a developing country like India. Proper credit flow to SMEs demand a paramount importance in the current Indian scenario.
There were several meetings with dissertation supervisor Michael Kealy whose opinions and suggestions really helped the researcher to refine the research topic into a more meaningful one. His support was greatly appreciated throughout.

7.3.2 Use of Sources

Sources of material came from various academic journals, articles, reports, newspapers and reliable websites in order to construct the literature review, research objectives, relevant hypotheses and survey questions. Researcher searched through many relevant documents including data’s related to SMEs and it’s financing. The library provided a vast range of books and additional data was collected from online sources like My Athens, ebscohost etc. During the preparation of the proposal, the researcher attended the DBS library class to get a deeper understanding in preparing literature review, methodology and how to use the Harvard referencing in order to acknowledge the sources of information. The researcher understands that referencing is a vital component of academic research because it involves the work of others and avoids plagiarism.

7.3.3 Formulation of dissertation process

The resources used supported the dissertation in a lot of ways. They formed the foundation of the thesis. The knowledge gained through these resources helped to find gaps in the literature upon which research questions were built. The research methods primarily focused on quantitative analysis and the different aspects in the quantitative research methods. The researcher gave a lot of thought into designing hypothesis and appropriate questions for the survey. The hypothesis draws subsequent relationship between SME growth and institutional financing. Furthermore, the analysis section was carried out with software called SPSS which helped the researcher to explore issues, explain the activities or attitudes, describe how things were working and why they were working in a particular manner. It would not be wrong to say that the researcher had a perception that financial institutions are not lending like a group of SMEs have. The researcher started her work based on this belief. But the result was completely against of her thoughts. And
the consequent outcome of this study was that the financial institutions especially commercial banks are providing adequate credit to SMEs, was not expected and in fact surprised me.

7.4 Skills development

7.4.1 Research skills

‘Research is a doorway, opening onto a whole new outlook on the world…’ (Willison, Peirce & Ricci, 2009)

With no experience in research previously, the undertaking of the final thesis presented lots of challenges at the start, which provided an unparalleled learning experience and sense of accomplishment towards the completion of the project. To start with the selection of research topic, reviewing of existing literatures and formulating research methodology and at the end, the stage of contributing new ideas to an area of research have established an amazing learning experience.

7.4.2 Time management skills

The researcher’s one of the main weakness during her Bachelor studies was lack of time management. Through the course of MBA and the accomplishment of this research process she learned the importance of time management skill and also learnt to set time in-order to achieve the overall goal of completing the thesis. Through the course of this study, the researcher realized the fact that the time management simply not a process of setting time to accomplish our task, but it also comprises the whole process of planning, goal setting, prioritizing, delegating and scheduling of our piece of work.

7.4.3 Interpersonal Skills:

The active and interactive design of the MBA program, along with the substantial number of group tasks assigned and presentations arranged during the course of the study greatly supported the progress of researcher’s social and interpersonal skills. Oral and non-verbal communication skills, listening and co-operative skills are all skill areas that were expansively tested and
advanced throughout the program. Rather than this, during the course of conducting data collection, the researcher had to interact and explain the aim of her thesis to many people in order for them to agree to be part of it. All these experiences caused in increasing the interpersonal skills of the researcher to take into the future, which will be of help for the educational and professional life.

**7.4.4 Learning skills**

The researcher is always passionate about learning. Good learning skills involve appreciating the need to learn and the ability to reflect upon our performance. Researcher’s curiosity behind the conduct of research was to learn new things. The whole process of Master’s program and a dedicated course of thesis study helped her to improve the deep interest in learning and thereby to improve the curiosity of doing further researches.

**7.4.5 Critical thinking skills**

The skills needed to critically think are essential to complete the dissertation process. Being critical involves making judgments and evaluations. Making judgments can involve distinguishing between fact and opinion or evaluating the validity of information sources or the validity of particular theories and/or their application to particular situations. Throughout the course of MBA and in the writing of thesis researcher developed a critical approach to knowledge and learning that allowed her to become a more independent critical thinker.

**7.4.6 Communication skills**

Since the researcher is not an English native speaker, even the progress of communicational and linguistic skills represented a great achievement. This also contributed to provide the basis for academic writing and speaking. The researcher enormously improved her linguistics skills in English while living in Dublin and attending her Master programme at DBS. The attending of a Master course abroad and in a foreign language posed a big challenge which was, however, overcome successfully.
7.4.7 Team working skill

The researcher realized the Anglo-Saxon educational system which is very different from the Indian education system. Being in and working for a team was not used to the researcher before. She learned associating with teams and recognized that it’s an amazing feeling to work in teams as it improves the skills of co-ordination, thinking and suggesting ideas, involvement, idea sharing and furthermore, relationship building and negotiation skills. It is an opening for each member to learn from other individuals, their knowledge, learning style and approach to duties. Researchers experience at DBS and her MBA had progressive results on her perception of working in group and on her team-working skills.

7.5 Future Application of Learning and Skills Development

Researcher believes that the MBA and the experience of writing an empirical study as final dissertation has been added value to her knowledge and learning. Researcher deepened her knowledge in Finance & Small enterprises. Rather than gaining knowledge regarding with the research subject she learnt a lot about herself including her learning styles and individual strengths and weaknesses. The researcher fixed some distinct goals in relation to her learning and career path in enrolling on the course of MBA and she believes that in completion of the programme that the goals are well within her reach. The MBA programme has helped the researcher to meaningfully develop in key skill areas; particularly, critical thinking, research and teamwork and vastly improve in the areas of communication (writing and referencing) and time management. All the skills mentioned in this section have cumulatively contributed for to the researcher’s all round personality development. The researcher is now confident that she can take control and manage the career much more efficiently by applying the skills and knowledge that she has gained throughout the course and achieve target driven results.
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Moon, J.A. (1999b) Reflection in Learning and Professional Development, Kogan


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The SME Whitebook 2011-2012 (Businessworld), New Delhi.


ZAVATTA, R. & SRL, M. G. 2008. Financing Technology Entrepreneurs & SMEs In Developing Countries: Challenges And Opportunities, infoDev.
Research Questionnaires for SMEs and Financial Institutions

The tags [COMMON], [SME] and [FIs] indicate whether the question is common to the SMEs and the financial institutions (FIs), or specific to the SME and FIs, respectively.

[COMMON] 1. Which of the following best describes your entity?

☐ SME

☐ Financial Institutions

[COMMON] 2. Gender of respondent :( Please tick appropriate answer)

☐ Male

☐ Female

[COMMON] 3. What is your age group? (Please tick appropriate answer)

☐ 18 – 30

☐ 31 – 40

☐ 41 – 50

☐ Above 51

[SME] 4. What is the ownership form of your enterprise if any (Please tick appropriate answer)

☐ Sole owner

☐ Partnership

☐ Limited Company

☐ Cooperative

☐ other please specify ..............................

[SME] 5. The nature of your company’s operations :( Please tick appropriate answer)

☐ Manufacturing

☐ Service

☐ Commerce and trade
6. How long have you been in business?
   ☐ 2-5 Years
   ☐ 5-10 years
   ☐ More than 5 years

7. Did you ever apply for a loan in your business? (Please tick appropriate Answer)
   ☐ Yes
   ☐ No

7a if no, why did you not apply for external finance?
   ☐ Because of possible rejection
   ☐ Because of sufficient internal funds
   ☐ Belief that banks are not lending
   ☐ Too expensive to borrow
   ☐ Inability to repay/meet requirements of finance
   ☐ Other reasons

If Yes continue question 8 and if No continue question 12

8. which of the following best describes your experience after applied for the loan?
   ☐ Applied and got everything
   ☐ Applied and got most of it
   ☐ Applied but only got a limited part of it
   ☐ Applied but refused because cost is too high
   ☐ Applied but was rejected

8a. What are the reasons made you to apply loan from bank or other financial institutions? (Please tick appropriate answers)
   ☐ For start-up business
   ☐ For extra capital for the business
   ☐ For Buying Machineries and equipment’s
   ☐ Training/staff development
☐ Expansion of business
☐ Marketing
☐ Research and development
☐ Other Reasons

[SME] 8b. What was the amount borrowed at the first time INR? (Please tick appropriate answer)
☐ Below 25,000
☐ 25,000-100000
☐ 100000-300000
☐ 300000-500000
☐ Above 500000

[SME] 8c. Who provided you with this last loan?
☐ Commercial Bank
☐ Micro finance institutions/Non-governmental organizations
☐ Co-operative banks/Credit unions
☐ Other sources

[SME] 8d. How often do you repay your loan? (Please tick appropriate answer)
☐ Weekly
☐ Monthly
☐ Quarterly
☐ Yearly

[SME] 9. Please indicate the level of your firm’s achievement level after getting financial assistance.

Putting a tick in the box that corresponds to your situation

**Levels of Achievement**
☐ 1= More decreased
☐ 2= Slight decreased
☐ 3= Stable
☐ 4= Slight increased
☐ 5= More increased

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<th>Levels of Achievement</th>
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<tr>
<td>No:</td>
<td>1</td>
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<tr>
<td>A Sales revenues</td>
<td></td>
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<tr>
<td>B Profitability</td>
<td></td>
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<tr>
<td>C Physical assets</td>
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<td>D Financial assets</td>
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[SME] 10 Regarding the terms and conditions of bank financing available to your firm for each of the following item, please indicate that whether they were increased, remained unchanged or were decreased over the past 12 months.

☐ 1= Was increased
☐ 2= Was decreased
☐ 3= Remain unchanged

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<thead>
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<th>Terms and conditions</th>
<th>Changes occurred</th>
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<tr>
<td>No.</td>
<td>1</td>
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<tr>
<td>A Level of interest rates</td>
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<tr>
<td>B Other charges, fees and commissions other than interest rates.</td>
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<tr>
<td>C Available size of loan.</td>
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<td>D Available Repayment period of loans.</td>
<td></td>
</tr>
<tr>
<td>E Collateral requirements</td>
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</table>
Information requirements, procedures and time required for loan approval.

[SME] 11. What are the threats to the development of your enterprise? Please tick to the appropriate answer (Please tick as much as possible):

☐ Lack of Availability Of finance
☐ Problems in access to market
☐ Less demand from the public
☐ Procedural difficulties in starting a company
☐ Lack of Infrastructural facilities
☐ High level of Competition
☐ Lack of market information
☐ Lack of management skills
☐ Lack of Support from the Government
☐ Lack of business support and training
☐ High interest rate
☐ Others please specify

[SME] 12. Tick among those factors which prevent SMEs/ entrepreneurs borrowing from Financial institutions (Please tick more than one if necessary).

☐ Lack of collateral
☐ Lack of track records
☐ Newness in the business (start-up)
☐ Lack of entrepreneur skills
☐ Poor documentation
☐ Corruption
☐ High interest rate
☐ Other please specify

[SME] 13. If you need additional financing to realize your growth ambitions, what type of external financing would you prefer most?

☐ Bank loan
☐ Loan from MFIs/NGOs
Finance from credit unions/Co-operative banks
☐ Others

[Fi] 14. Which of the following describes your FiS?
☐ Commercial bank
☐ Micro financial institutions
☐ Credit unions /Co-operative

[Fi] 15. What is the major products/services that your organization offers to SMEs, (Please tick on the appropriate several answers possible)
☐ Short term loan less than one year
☐ Long term loan over one year
☐ Saving & bank overdraft facilities
☐ Training and business supports
☐ Credit information systems/external rating systems
☐ Letter of credit and bank guarantees
☐ Credit cards & Trust receipts (Safe keeping of documents)
☐ Internet banking and foreign exchange facilities
☐ Payment to employees & suppliers
☐ Leasing & Factoring
☐ Others please specify

[Fi] 16. Level of experience in dealing with SME loan requests
☐ Very experienced
☐ Experienced
☐ Not much
☐ Not at all

[Fi] 17. What do you think are the important obstacles that limit your organization's involvement with SMEs?
☐ Failure of SMEs to meet financial requirements
☐ Legal and contractual environment
☐ Lack of adequate demand
☐ High competitions in the financial sector
☐ Financial Regulations
☐ Newness or limited capabilities of FIs
☐ Others

How does your organization prioritize small and medium enterprises (SMEs) in the Provision of loan? (Tick to the appropriate situation)
☐ First priority
☐ Second priority
☐ Third priority
☐ Neither of the above

What do you think are the main factors that prevent SMEs operators to borrow from financial institutions?
☐ Lack of collateral
☐ Poor documentation
☐ Non-feasible projects
☐ Newness in the business
☐ Lack of strong data base
☐ Belief of SMEs that banks are not lending
☐ Lack of entrepreneurial skills
☐ High interest rate
☐ others please specify

What are the key factors driving your organization’s desire to become involved with SMEs?
☐ Perceived profitability
☐ Exposure in other segments
☐ Social objective (Developing the community &economy)
☐ Attracting new customers
☐ Financial innovations (Innovative products or services )
☐ Others
[FIs] 21. Please indicate your opinion about the usefulness of following policies in supporting SMEs access to banking sources?

Put a tick in the box that corresponds to your opinion.

☐ 1 = Very useful
☐ 2 = of some use
☐ 3 = Not useful

<table>
<thead>
<tr>
<th>No.</th>
<th>Policies</th>
<th>Usefulness</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Interest subsidies</td>
<td>1</td>
</tr>
<tr>
<td>B</td>
<td>Technical support for SMEs in accessing to bank credit.</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>A special fund for commercial banks to lend for SMEs.</td>
<td>1</td>
</tr>
<tr>
<td>D</td>
<td>State financial supports to banks for providing medium and long term credit.</td>
<td>1</td>
</tr>
<tr>
<td>E</td>
<td>Policies and guarantees encouraging commercial banks to lend SMEs</td>
<td>1</td>
</tr>
</tbody>
</table>

[FIs] 22. What strategies need to be adopted by your organization to facilitate SMEs operators or entrepreneurs to qualify for loans?

☐ ..............................................

.................................
[COMMON] 23. Do you suggest that government should encourage and create opportunities for small business in your state?
☐ (a) Yes
☐ (b) No

[COMMON] 24. How would you rate the support rendered by the Government of India to SMEs

Please rank: 1=very good, 2=good, 3=neutral, 4=slightly good, 5=not good at all (Tick as appropriate)

<table>
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<tr>
<th>1</th>
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<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Very good</td>
<td>Good</td>
<td>Neutral</td>
<td>Slightly good</td>
<td>Not good at all</td>
</tr>
</tbody>
</table>

Thank you for taking your time in filling this questionnaire.