

RESEARCH PAPER

# Issues faced by micro entrepreneurs in banking: A comparative analysis of public and private sector banks

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## ABSTRACT

Banking is one of the fastest growing industries in India. In spite of dominant position of public sector banks private sector banking in India revolutionizes the business environment. But micro enterprise in India is still under developed due to financial hindrance while they account good share in production and export. For the development of micro enterprises there should be a strong linkage with the banks. A primary study of 80 respondents has done to identify the issues associated with banking. Simple statistical technique chi-square and ANOVA is used to analyze the data. This study is helpful for banks to design a policy to deliver the service particularly to micro enterprises.

**KEY WORDS :** Banking, Microenterprises, Economic development

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**M** SME are the crucial part of India's industrial sector (Chandraiah and Vani, 2014). It play a significant role in economic growth and all-round development in both developed and developing countries (Gichuki *et al.*, 2014 and Pelham, 2000) and one of the major contributor in the progress of any state (Ramarao, 2012). Development of micro enterprises is a important tool to alleviate poverty and to achieve socio-economic goal also. the concern of the present study about micro enterprises. A micro enterprise is define as

where investment in plant and machinery does not exceed Rs. 25 lakh (RBI, 2015). It is characterize a one of the major constitute of the economy in developing countries (De Mel *et al.*, 2009 and Nichter and Goldmark, 2009). But these industries (especially micro) are generally poor and there are no proper availability of discounted credit (Aruna, 2015). In Prime Minister's Task Force report, it is given that Micro, Medium and Small Enterprises are facing number common problems, most of the problem related to finance such as problem are lack of accessibility of adequate and timely credit; High cost of credit; Collateral requirements. However; micro enterprises are falls under primary lending sector (Rani and Garg, 2015). Galindo and Schiantarelli (2003) argued that less access to external finance is a big constrained in the growth of small firm. Timely availability of credit is necessary for the growth and development of MSMEs although the MSMEs face severe difficulty in getting finance (Kumar

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*et al.*, 2009). Finance is a bigger problem for micro enterprises as compare to large firms, mainly in the developing nation, this may be the reason for underdevelopment of micro enterprises (Schiffer and Weder, 2001 and Beck *et al.*, 2006) and in India also, problems faced by MSMEs is difficulties in obtaining credit (Garg and Walia, 2012). The potential reason for sickness of micro enterprises is credit restrains policy and delay in disbursement of loan (Goyal *et al.*, 2012). However, the growth of highly depends on the investment in reform, innovation of micro enterprises. Therefore, to upgrade the sector there is a need of strong link up with banking. Bala (2004) highlighted small industry had suffered in terms of growth of units, employment, output and export and suggested that there should be much emphasis is given on technology up gradation and strengthening the financial infrastructure for SSI to make industry competitive.

After liberalization Indian banking sector increases many fold and quality up gradation can be seen. In spite of well set up of public banks a number of private banks are also enter in the industry and give tough competition in the market although micro enterprises are facing constraint in banking and finance. Hence, there is a need to check out the major issues face by the entrepreneurs in the banking at micro level. In the present study a primary survey is conducted to identify banking issues associated with micro entrepreneur. Some literature is also done to compare public and private sector banking services.

Lohani and Bhatia (2012) finds staffs of the banks is the determinant of customer satisfaction while the banks are given more concentration on the physical factor like a computerization, physical facilities, etc. Staff knowledge and behaviour, support system, e-banking-channel and charges are the key factor that influences that customer's satisfaction. Doddaraju (2013) found that satisfaction level of customer with public sector banks is low with regards to courtesy shown by bank staff and suggested that the banks should pay special attention to giving training to the employees to conduct themselves better. While (Rather, 2013) found that there is no difference in knowledge of employees and service provided by the both public and private banks. Despite attracting young customers by private sector banks, still there is a equal opportunities and threats for both type of banks. As far as micro enterprise entrepreneurs are

concern they are facing financial complicatedness mostly during the start up. A large number of micro enterprises have yet to tap into the funds provided by the banks (Nurbani *et al.*, 2011).

### **Objectives of the study :**

- To analyze the issues associated in banking with microenterprises.
- To analyze the issues of microenterprises with public and private sector bank.
- To suggest a policy and product design to bank with regards to microenterprises.

## **METHODOLOGY**

### **Data collection and survey instrument :**

This study is based on the primary survey. Data has been collected from 80 micro entrepreneur of Moradabad district of Uttar Pradesh. Moradabad is well known for brass handicrafts industry and mostly entrepreneurs are micro in nature. To collect data a structured questionnaire was developed. The questionnaire was divided into two parts. In first part general and business information of the respondents such as age, firm's age, numbers of employees in the firm and education status and in the second part issues associated in banking are taken.

### **Data analysis techniques :**

Descriptive statistics is used to know the information about general information and enterprises business characteristics while analysis of variance is used to find out the difference between issues associated with public and private sector bank faced by the micro entrepreneurs. Responses were taking on a five-point Likert scale ranging from 1-5, where 1 means extreme disagreement and 5 means extreme agreement.

## **ANALYSIS AND DISCUSSION**

In the Table 1 general information of respondent and enterprises characteristics is given. From the descriptive analysis it is revealed that 55 per cent of the micro entrepreneurs are between the age group of 26-40 years while 32.5 per cent are belongs to the age group of more than 40 year. It shows that majority of the entrepreneurs belong to mature age group. Education level of 20 per cent respondents are higher secondary or below higher secondary. While 28.75 per cent

entrepreneurs have education level of High School/ Intermediate and similar numbers of respondents are graduated. There is lack of technical education among micro entrepreneur. Only 3.75 per cent have technical education of any kind. Most of the enterprises (31.3%) have experience less than 5 years in business and 26.3 per cent enterprises have experience of 6-10 years in business. Similarly 26.3 per cent firms' age are between 11-20 years. As far as numbers of employees are concern 58.8 per cent enterprises have 3-5 employees while 21.2 per cent enterprises have less than 2 employees in the firm. Only 52.5 per cent enterprises have registration number while rest micro enterprises are unregistered.

Private sector banks are striving to get market share in strong presence of public sector banks. Therefore, they try to provide better services. But this tough competition affects the profitability of the banks. However, public sector banks are also adopting modern technologies to face the challenges. In order to examine whether the micro entrepreneurs are perceived problem with both type of banks or there is any significant

differences in issues faced by micro entrepreneurs with public and private sector banks, analysis of variance (ANOVA) has been done. Table 2 provides empirical results of difference in the perception on different issues. 40 customers of each type of banks are taken. Higher the mean score indicate that higher the agreement level with the statement. Mean score of extra charge to use like phone banking, internet banking for private banks is higher it indicate that private banks charge extra amount of phone, internet banking. From the mean score it found that private banks are not specified their banking term and conditions and from the F-test ( $F=14.55$ ,  $P<0.001$ ) it is also found that on this issues there is a significant difference between public and private banks customers. Statistically ( $F= 12.72$ ,  $P<0.001$ ) on the issue of staff behaviour significant difference has found. Micro entrepreneurs perceived that staff behaviour of public banks is not good while for the private banks opposite is found. Customers of both public and private sector banks equally think that terms and condition are banks favourable. Despite of competition in banking industry,

**Table 1 : General information of respondent and enterprises characteristics**

Item	Category	Percentage (%)
<b>Age of entrepreneur</b>	<25 year	12.5
	26-40 year	55
	More than 40	32.5
<b>Education status of entrepreneurs</b>	Illiterate	6.25
	Primary/Higher secondary	13.75
	High School/ Intermediate	28.75
	Graduate	28.75
	P.G	18.75
	Technical	3.75
<b>Firm's age</b>	0-5 year	31.3
	6-10 year	26.3
	11-20 year	26.3
	More than 20 year	16.1
<b>Number of employees</b>	Less than 2 employees	21.2
	2-5 employee	58.8
	6-10 employees	20
<b>Type of entrepreneur</b>	Registered	52.5
	Unregistered	47.5

customers have no bargaining power in banking. In private banks, some potential customers are in the condition to bargain with the bank but in public sector banks, policies are rigid. From the mean score it can be seen that in public sector banking entrepreneurs have low bargaining power compare to private sector banking.

Providing better services is the one of the big challenges for the bank. As customers wants less time consuming process. F-test ( $F=21.04$ ,  $P<0.001$ ) indicates that there is significant difference has been found on this issue of problem solves in single visit. Mean score shows that most of micro entrepreneur perceived that their problem do not solve in single visit in public sector banks. There is number of document are required in getting credit. Mean score of public and private sector banks 3.90 and 3.70, respectively indicates that both have type of banks have lengthy documentation process for credit disbursement. In spite of lengthy documentation banks take too much time to grant credit specifically public sector banks. One of the major problem micro entrepreneur face that credit for specific projects is not available. As far as collateral problem is concern there is significant difference has found between public and private banks. Private banks customers face more collateral problem than public banks customers. Most of

the micro entrepreneurs perceived that there is lower valuation of their property by both type of banks. Micro entrepreneur face adequate information problem of bank policies with both type of banks and perceived that rate of interest is high. Another problem that micro entrepreneurs have to counter that banks change rate of interest without given any acknowledgement to the customers and on this issue from ANOVA ( $F=5.50$ ,  $P<0.05$ ) significant difference is found in the perception of public and private sector banks' customers. Private banks change interest rate without give prior information to customers. From the mean score it is revealed that public sector banks officials want bribe to sanction the loan and statistically ( $F=10.48$ ,  $P<0.001$ ) significant difference has been found between private and public sector banks on this matter. Means score 3.60 and 3.45 indicates that after grant the loan amount, Banks takes time to final disbursement in the account.

### Conclusion :

MSME are the crucial part of India's industrial sector. In spite of well establish system of public banks, a number of private banks are also enter in the industry and give tough competition in the market although micro enterprises are facing constraint in banking and finance.

**Table 2 : ANOVA on banking issues face by public and private sector banks micro entrepreneurs**

Major issues in banking	Public bank	Private bank	Total	F-value
	Mean (n=40)	Mean (n=40)	Mean (n=80)	
Extra charge to use like phone banking, internet banking	3.58	3.68	3.63	0.19
Unspecified terms and conditions	3.15	4.03	3.59	14.55*
Staff behaviour is not good	3.18	2.33	2.75	12.72*
Banks favourable terms and condition	3.60	3.65	3.63	0.07
Low bargaining power of customer in banking	3.58	3.48	3.53	0.18
Problem is not solve in single visit	3.68	2.50	3.09	21.04*
Lengthy documentation process in getting credit	3.90	3.70	3.80	0.84
Too much time to grant credit	3.73	3.65	3.69	0.14
Credit for specific project not available	3.53	3.32	3.42	0.35
Collateral problem	3.18	3.80	3.49	7.60**
Inadequate information about bank policies	3.95	3.80	3.88	0.73
Interest rate is high	3.97	3.95	3.96	0.03
Change interest rate without acknowledge	3.00	3.58	3.29	5.50**
Bribe ask by bank officials	3.83	2.93	3.38	10.48*
Terms and condition not spelt out or explain	3.62	3.78	3.70	0.72
Lower valuation of property	3.40	4.58	3.99	1.31
Delay in getting credit amount after sanction	3.60	3.45	3.53	0.52

\* and \*\* indicate significance of value at  $P=0.01$  and  $0.05$ , respectively

A primary study has done to check out the major issues face by the entrepreneurs in the banking at micro level. Finding reveals that term and conditions are specified to the customers. It is found that there is number of issues with both types of banks. Customers face more collateral problem in private banks customers compare to public sector. Behaviours of the public sector bank employees with entrepreneurs are not good and to sanction loan bribe is demanded. Most of the entrepreneurs' perceived that their problems do not solve in single visit in public sector banks. While in private banks, interest rate changes without give prior information to customers. Banks takes time to final disbursement amount in the account. Banks should provide information about bank policies and terms and conditions are fully specified and transparent especially private banks. Training should be provided to public bank's staff that they can understand the behavioral importance to retain the customers. Policies should make to reduce the collateral problem because micro entrepreneur are not much well off to provide collateral, there should be liberal rule for them.

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