

# A Study on MSME Entrepreneurs' Perception Towards Financial Institutional Support

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## Abstract

There are more initiatives taken by the government of India to promote entrepreneurship among the young Indians with a lot more financial supports and schemes. In this background, it is the right time to evaluate schemes and supportive institutions, which are promoting the entrepreneurship in India. This present study is conducted to highlight the perception of the Micro, Small and Medium Enterprises (MSME) entrepreneurs towards the financial institutional support for the development of the MSME in India especially Small Industries Development Bank of India (SIDBI) supportive schemes. Total 400 respondents were selected across the Karnataka to evaluate the performance of SIDBI and also to highlight the satisfaction level of the entrepreneurs towards the SIDBI supports.

**Keywords:** Entrepreneurs, SIDBI, Financial Institutional Support, SIDBI MUDRA, Start-up, Stand up

Entrepreneurship is an important driver for creating employment opportunities, boosting innovations, and thereby fuelling growth. The government of India has taken a large number of initiatives since 2014 which are changing the mind-set of people to foster the spirit of entrepreneurship. The earlier challenges in terms of access to credit, market linkages, space and network, and mentors are being made available through programmes like Start-up India; Ease of Doing Business; Stand Up India, MUDRA, and Atal Innovation Mission. An increasing number of tech-based start-ups in the area of

education, e-commerce/m-commerce, financial services, ITES, etc., are emerging, making India the third largest start-up ecosystem in the world. For instance, the Byju's Learning App started in July 2015 as a start-up has become a unicorn within 3 years of its launch. First, according to Maresova (2010), there are cultural factors which discourage too many people from starting a business. Hence, there is a need to develop a more entrepreneurial culture, starting with young people, and from school education as stated by Medarova et al., (2012). Also, there is too often a stigma attached to failure. Second, the administrative requirements are often a major factor in putting entrepreneurs off as opined by Hajek et al., (2013). Third, entrepreneurs need to find it easier to attract investors as put forward by Puzova and Maresova (2014).

**Table 1: Profile of Indian MSME Sector**

Sl. no	Particular	Value
1	Number of micro and small enterprises	130 lakhs
2	Employment	410 lakhs
3	Share in GDP	8-9%
4	Share in manufacturing output	45%
5	Share in exports	40%

Source: MSME report -Profile of Indian MSME Sector

**Meaning of Institution:** Institution means an organization founded for a religious, educational, professional, or social purpose.

**Meaning of Institutional Support:** The term 'institutional support' refers to the part of economic environment of industry and business. It consists of authorities and institutions whose decisions and active support, in

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form of laws, regulation, financial, and non-financial help, bring a lot of changes in the functioning of any business.

**Meaning of Financial Institution:** A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions, such as deposits, loans, investments, and currency exchange. Virtually, everyone living in a developed economy has an ongoing or at least periodic need for the services of FIs.

**Small Industries Development Bank of India (SIDBI):** The Government of India has set up the Small Industries Development Bank of India (SIDBI) under Special Act of Parliament in 1989 as a completely have possession of subsidiary of the IDBI for assurance of better flow of financial and non-financial support to the micro-, small- and medium-scale sector. SIDBI has taken over the exceptional portfolio of the IDBI concerning to the small scale sector for promotion, financing, and development of the MSME sector and for organizing the activities of other establishment.

- It is the major progressive and advanced FI in India.
- Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprises (MSME) sector.
- SIDBI has undertaken a lot of activities which include development of Micro Finance Institutions, rural enterprises promotion, direct assistance to MSMEs.
- The availability of credit scores for SMEs in India should also help to enhance the quality and reliability of financial information, thus enabling more lending to the sector.
- From being a mere conventional refinancing organization, it has come out stronger in meeting the wide-ranging requirements of the MSME sector by exploring novel areas and seeding choice for the future growth, like launching new financial products and instruments and support service programmes.

The present study is an attempt to study the growth and performance of SIDBI since its inception in 1991 and also to find out the most popular financing schemes of SIDBI which provide financial support to the MSMEs. The main aim of the study is to map the opinions and attitudes of active entrepreneurs based on surveys and interviews within Karnataka.

## Review of Literature

Dalbery (2011) highlighted that MSMEs are often thwarted by an inefficacy to attain financial capital for expansion and growth and advance intercessions to cover the gap in financing. The author suggests charting out roles of contribution for multilateral actors and the public. Nagaraja and Murthy (2010) suggested that the government of India has to establish a board for signifying procurement policy and development frameworks in order to make the sector a significant and a vibrant player in the development of the Indian economy. Ardichvili et al. (2003) theorize the identification process of opportunity. The entrepreneur's social networks, personality traits, and prior knowledge as precedents of entrepreneurial alertness to business opportunities are identified. Entrepreneurial alertness is an important prerequisite for the success of identification of the opportunity; development, recognition, and evaluation. A theoretical model, a set of propositions, laws of interaction, and suggestions for further research are provided. Gupta (1998) highlighted that in India government bodies/organizations like SIDBI, IDBI, and NABARD, etc., are providing both financial and non-financial support required by the small-scale cottage and industries. These organizations are found to have been playing very significant role in the development of small-scale and cottage industries, in particular, through financial assistance and consultancy services. Bana (2000) highlighted the role of the SIDBI in uplifting the SSI and it accounts form to the extent that 96 per cent of India's industrial units, 40 per cent of the production in the manufacturing sector and 35 per cent of the exporters apart from employing over 17 million people. Outstandingly, this sector has also encouraged a new generation of entrepreneurs and opened up novel lines of production also providing essential subsidiary contributions for the organized sector. He also points out that SIDBI considers that their service for MSMEs go much further than just loan money. Verma (2005) points out a particular examining organization would be set up to manage that the authentic credit requirements of the small-scale sector are completely met. Also, by resolving the late payments to small industries by introducing "factoring services" through SIDBI.

It is evident from the literature that to run a MSME, support from FIs like SIDBI, for fostering entrepreneurship, is

strongly required. The development of MSMEs in India, particularly in Karnataka State which is under study, still remains a puzzle for the industrial sector along with its impact on the economy. However, there is an unanimity among all the stakeholders that industrial growth with respect to MSMEs in any State or country is possible only by undertaking issues relating to such MSMEs at the ground level and every need of these industries is catered to through the required institutional support and assistance. There are many opportunities before the entrepreneurs for starting MSMEs in Karnataka and running them profitably. The State is endowed with so many natural resources. A study was conducted by 'Confederation of Indian Industries' (CII) in 2002 among 20 States in India in order to find out the potential of the States in attracting investment for the establishment of MSMEs.

In this background, there is a need to analysis the function and evaluate the performance of the SIDBI and their role in promoting and developing the MSMEs in Karnataka. Also need to highlight the awareness level of the MSMEs entrepreneurs towards the government support and institutional financial support for MSMEs development. Hence, there arises a need to identify and assess the problems and challenges faced by these MSMEs entrepreneurs to access financial support from SIDBI and their perception towards entrepreneurs' environment in Karnataka. Apart from the above, there is also a need to highlight the prospective aspects for the MSMEs units in the selected districts of Karnataka state.

## Objectives of the Study

- To identify the problems of MSMEs in availing the financial assistance.
- To evaluate the MSMEs perceptions towards various entrepreneurial developmental schemes of SIDBI.

## Research Methodology

**Primary Data** – The primary data have been collected through field survey technique. A structured questionnaire was drafted and issued to respondents situated in selected districts of Karnataka state. Respondents for the study are the 400 MSME units which were considered based on the simple random sampling method followed by convenience sampling technique. A sample size taken for the present study is 400, with a margin of error at  $\pm 5\%$  and confidence level at 95% (Krejcie & Morgan). Sample size is 384 and it is rounded off to 400 samples. The respondents among the four administrative districts namely Bangalore district, Belgaum district, Mysore district, and Gulbarga district were selected.

**Secondary Data** – The primary data were supplemented by a spate of secondary sources of data. The secondary data pertaining to the study were gathered from the records published by government agencies. Latest information was gathered from well-equipped libraries in Mysuru, Bangaluru, and Chennai and also from the web resources. Further, the secondary data were also collected from various leading journals.

## Data Analysis and Interpretation

**Table 2: Type & Nature of MSME Enterprises**

Nature of Enterprise	Type of Enterprise	Type of Ownership				Total
		Sole Proprietorship	Partnership	Private Limited	Others, Please Specify	
Engineering and manufacturing	Micro	15	0	0		15
	Small	51	0	0		51
	Medium	95	37	3		135
	Total	161	37	3		201
Textile	Micro		13			13
	Total		13			13
Plastic	Micro	5			6	11
	Medium	1			0	1
	Total	6			6	12

Nature of Enterprise	Type of Enterprise	Type of Ownership				Total
		Sole Proprietorship	Partnership	Private Limited	Others, Please Specify	
Services	Micro	8			0	8
	Small	37			0	37
	Medium	7			8	15
	Total	52			8	60
Trading	Small	14	15			29
	Medium	20	0			20
	Total	34	15			49
Others, please specify	Micro	5	5			10
	Small	17	0			17
	Medium	32	6			38
	Total	54	11			65

Source: Primary data

Table 2 shows the type of enterprise of the respondents. Out of 400 respondents of the study, 209 (52.3%) of the respondents had a medium-scale industry, 134 (33.5%) small, and the rest 57 (14.2%) had micro enterprise.

Table 2 also reveals the data on the nature of enterprise is concerns, most of the enterprises surveyed belonged to engineering and manufacturing 201(50.2%) out of 400, 60(15%) were engaged in providing services of various

types, 49(12.3%) were trading organizations, 13(3.3%) were textile units and 12(3.0%) were plastic units. The rest 65 (16.3%) belonged to their types like job work, food industry, handicrafts, etc.

Table 2 also reveals that 307 (76.8%) of the units were sole proprietorship units. 76 (19.0%) were partnership firms and only 3 (0.8) under study were private limited. 14 (3.5%) were unregistered with the government.

**Table 3: Loan Applied Under Which Scheme of SIDBI**

Scheme of SIDBI	Frequency	Percent
National Equity Fund Scheme	39	9.8
Technology Development & Modernisation Fund Scheme	105	26.3
Single window scheme	154	38.5
Composite loan scheme	25	6.3
Mahila Udyam Nidhi (MUN) Scheme	29	7.2
Venture Capital Scheme	41	10.3
Micro Credit Scheme	7	1.8
Total	400	100

Source: Primary Data

From Table 3, the most preferred scheme of SIDBI was single window scheme 154 (38.5%), as it was easy for the entrepreneurs to apply for loan under this scheme. The next scheme opted was technology development and modernization fund scheme, 105 (26.3%). The funds applied for under this scheme were either for updating of

technology or technological development. Mahila Udyam Nidhi (MUN) Scheme was for women entrepreneurs and it supported the rural women entrepreneurs. The other schemes of SIDBI were not very common and most of them were not aware of the schemes. So, loans under these schemes were not availed.

**Table 4: Opinion of the Entrepreneurs on SIDBI's Loan**

<i>Particulars</i>		<i>Frequency</i>	<i>Percent</i>
Formalities	Rigid	78	19.5
	Flexible	322	80.5
	Total	400	100
Terms and conditions	Favourable	343	85.8
	Unfavourable	57	14.2
	Total	400	100
Rate of interest	High	53	13.3
	Moderate	347	86.8
	Total	400	100
Mode of repayment	Favourable	354	88.5
	Unfavourable	46	11.5
	Total	400	100

Source: Primary Data

Table 4 reveals that in the case of formalities of SIDBI's loan, 322 (80.5%) of the respondents stated that the formalities in getting loan from FIs like SIDBI were flexible. There were not very stringent rules and if all documents required for loan applications were provided to the officials, there were no hassles faced.

In the case of terms and conditions of SIDBI's loan, it was found that 343 (85.8%) of the respondents said that the terms and conditions for getting loan from FIs like SIDBI and State Financial Institutions were favourable. The procedures were simple and easily understandable and, hence, the respondents did not face many problems when they applied for loans to various FIs.

In the case of rate of interest of SIDBI's loan, out of 400 respondents studied 347 (86.8%) felt that the rate of interest was moderate when compared to other private FIs. Only 53 (13.3%) felt that the rate of interest was high; maybe, they were not aware of the prevailing interest rates.

In the case of mode of repayment of SIDBI's loan, the mode of repayment was favourable after the loan was sanctioned and disbursed. The payment could be made in monthly instalments or quarterly as was decided between the FI and the borrower. 354 (88.5%) said that the mode of payment was favourable.

**Table 5: Entrepreneur's Opinion on Entrepreneurship**

<i>Sl.no</i>	<i>Factors</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
1	The set goals should be achieved on time due to the competitive world	400	2.28	0.867
2	In the initial stage even if there are business losses one should be bold enough to continue the business	400	4.57	0.51
3	One should always foresee business risks and act accordingly	400	3.86	0.916
4	All financial risks have to be tackled intelligently	400	3.86	0.855
5	Raising the required capital is one of the major problem	400	4.02	0.81
6	Risks involved in understanding Government rules and regulations are most important	400	3.88	0.803
7	Risks arising out of the technological developments should be predicted carefully	400	3.39	0.946
8	Pooling money is easier at present than in the past	400	3.49	0.884
9	Innovativeness is needed both in finding new methods of production & finding new methods of marketing	400	3.76	0.887
10	Flexibility and open mindedness is needed in accepting changes or modifications in the industry	400	3.3	0.987

Sl.no	Factors	N	Mean	Std. Deviation
11	Resourcefulness is needed in tapping different sources of finance	400	3.26	0.954
12	One should become a member of trade or industry to interact continuously with members	397	3.31	0.866
13	To widen the knowledge base, it is required to attend seminars, workshops, etc. on matters connected with SSIs	400	3.73	0.838
14	Do you recommend an association of small manufacturers to impart self-development programmes to satisfy the training requirements?	400	3.49	0.881
15	Do you believe that additional finance would stimulate company's growth?	400	3.26	0.936
	Aggregated Mean & Standard Deviation		3.56	0.8626

Table 5 shows the descriptive statistical measures for the opinions of the respondents for various statements. From the mean scores, majority of the respondents were agreed with all the items (Mean>3.56) of the items namely, 'In the initial stage even if there are business losses one should be bold enough to continue the business', 'One should always foresee business risks and act accordingly', 'All financial risks have to be tackled intelligently', 'Raising the required capital is one of the major problem', 'Innovativeness is needed both in finding new methods of production & finding new methods of marketing', and 'To widen the knowledge base, it is required to attend seminars, workshops, etc. on matters connected with SSIs'. About the mean scores, respondents disagreed with the items (Mean<3.56) namely, 'Do you believe that

additional finance would stimulate company's growth?', 'Do you recommend an association of small manufacturers to impart self-development programmes to satisfy the training requirements?', 'One should become a member of trade or industry to interact continuously with members', 'Resourcefulness is needed in tapping different sources of finance', 'Flexibility and open mindedness is needed in accepting changes or modifications in the industry', 'Pooling money is easier at present than in the past', 'Risks arising out of the technological developments should be predicted carefully', and 'The set goals should be achieved on time due to the competitive world'.

H<sub>0</sub>: There is a significant problem faced by MSME Entrepreneurs regarding delay in the sanctioning the loan from SIDBI.

**Table 6: Cross-Tabulation of the Loan Applied by MSME and Time taken by SIDBI to Sanction**

Loan Amount	Time Taking for Sanctioning Loan					Total
	Less Than 1 Month	1 Month to 3 Months	3 Months to 6 Months	6 Months to 1 Year	More Than 1 Year	
Below Rs.20 lakhs	19	71	66	14	0	170
Rs.20 lakhs-Rs.50 lakhs	0	28	84	36	3	151
Rs.50 lakhs-Rs.1 crore	0	6	13	25	7	51
Rs.1 crore-Rs.5 crore	0	0	0	28	0	28
Total	19	105	163	103	10	400

**Table 7: Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.008	12	0

Table 7 presents the critical (or table) value of  $\chi^2 = 36.42$  at significance level ( $\alpha$ ) = 0.05 and degree of freedom (df) = 24. Since the calculated value of  $\chi^2 = 2.0083$  is lesser

than its critical value, the null hypothesis is accepted. Hence, we concluded that there is a significant problem faced by MSME entrepreneurs regarding delay in the sanctioning the loan from SIDBI.

H<sub>0</sub>: SIDBI is not playing a significant role in promoting MSMEs in Karnataka

**Table 8: Entrepreneurs' Opinion on SIDBI's Role in Promoting MSMEs**

	Observed N	Expected N	Residual
Strongly Disagree	101	80	21
Disagree	58	80	-22
Neutral	74	80	-6
Agree	78	80	-2
Strongly Agree	89	80	9
Total	400		

**Table 9: Chi-Square Tests**

	Chi-Square	df	Asymp. Sig.
Pearson Chi-Square	13.075b	4	0.011

Table 9 presents the critical (or table) value of  $\chi^2 = 9.488$  at significance level ( $\alpha$ ) = 0.05 and degree of freedom (df) = 4. Since the calculated value of  $\chi^2 = 13.0756$  is greater than its critical value, the null hypothesis is rejected. Hence, we concluded that SIDBI is playing a significant role in promoting MSMEs in Karnataka.

## Conclusions

MSME development is very important and crucial for the development of industries, achieving sustainable growth and creating inclusive growth for MSMEs in India. This research found out that problems faced by MSMEs in India are access to financial or capital and managerial capacity. But it is imperative that access to capital or finance alone is not sufficient to attain entrepreneurial development. Therefore, the finance obtained by FIs should be capable of being managed. It is not important to have access to necessary information as to what he/she should do; the money would go down the drain. With this study, it can be concluded that MSMEs entrepreneurs are more satisfied with financial support and also with other facilities provided by the SIDBI in Karnataka.

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