

**A Comparative Study on Public and Private Sector Banks with respect to Micro Small and Medium Scale Enterprises Business Loans**

**\*Rajendran R**

**\*\*Vethanayaki A**

**\*\*\*Nataraj B**

\*Assistant Professor (S.G), Department of Business Administration, Annamalai University, Chidambaram-608002, Tamil Nadu, India.

\*\*Part time research scholar, Department of Management Studies, Mother Teresa women's university, Kodaikanal-624101, Tamil Nadu, India.

\*\*\*Assistant Professor, Great Lakes Institute of Management, Chennai, India

**Abstract:**

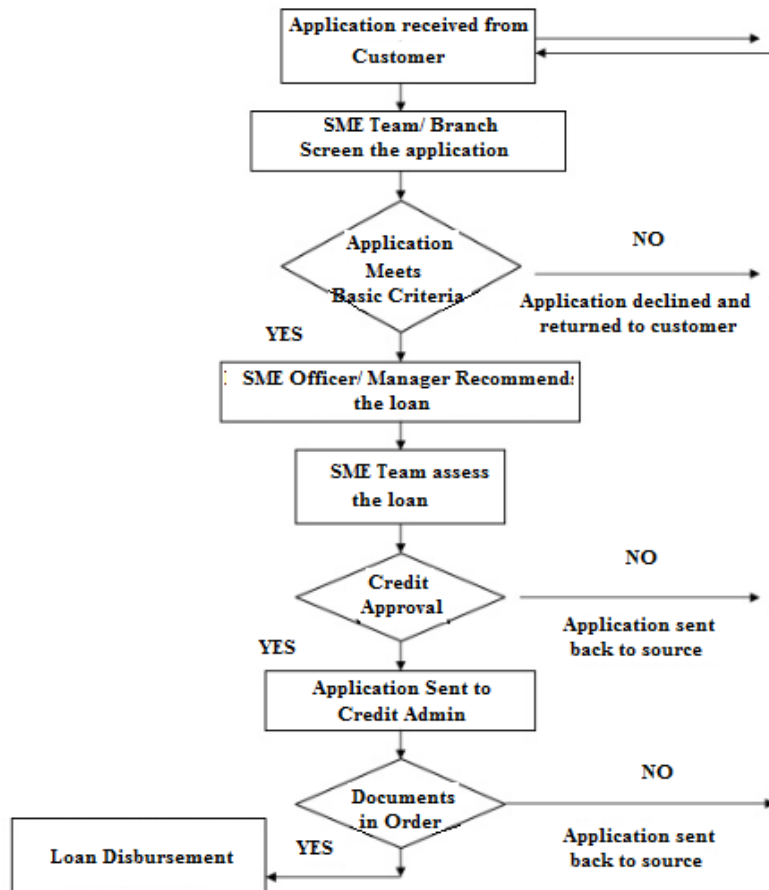
*The aim of the research article is to compare the services offered by public and private sector banks with respect to the Micro Small and Medium Scale Enterprises (MSME) business loans. The MSMEs forms the backbone of the Indian economy employing maximum number of employees next to agricultural sector in India. This MSMEs perspective on business loan process is analyzed in this research. Questionnaire interview method was adopted to collect the primary data from the sample respondents. The questionnaire required for the research study was constructed using established scales from previous literature. The secondary data used in the research was collected from bank's website, Reserve Bank of India Annual Reports, Magazines and refereed books. The statistical tools used in the research includes confirmatory factor analysis, t-statistics, dominance analysis and simple percentage analysis. The research revealed some important insights about the MSME business loans. The factor analysis revealed five distinct determinants of MSME business loans that includes Ease of getting loans, attributes of the loan, attributes of the banker, flexibility and relationship quality. It was also found that there is a significant difference in ease of getting business loans when compared to public and private sector banks. The research also revealed that there is a significant difference in relationship quality offered by public and private sector banks. The research has a wide range of applications. The research will be useful for the bankers to understand their MSME business customers and helps them to better manage the customers.*

Key words: MSME, Comparative Analysis, Public and Private Sector Banks.

**1. Introduction**

Micro, small and medium scale industries are instrumental in determining the growth of the nation. The central statistical office (CSO) has reported that 37.54 percent of the Indian GDP is contributed through Micro Small and medium scale industries. Indian government is running a separate ministry for these Micro Small and Medium scale industries named as The Union Ministry of Micro, Small and Medium Enterprises. This ministry is continuously supporting the growth and development of MSMEs by introducing new schemes and credit policies.

The financial strength of the Micro, small and medium scale industries is very less when compared to the giant enterprises that run the business world. This need for funds has led the MSMEs to source their fund from external institutions like banks and other organized and unorganized lenders. These external sources of fund can provide liquidity to the MSMEs and serve instrumental in full filling the working capital requirements or the capital finance requirements. The loan approval process in a bank or any organized lender is depicted in the Figure 1.



**Figure 1: Figure showing loan approval process for MSMEs**

From the reports International Finance Corporation (IFC) and Small Industries Development Bank of India (SIDBI) and analysis it was found that the entrepreneurs of MSMEs contribute just 4.6 trillion rupees out of the total estimated demand of 32.5 trillion rupees demand. In a comparative analysis it may be noted that the entrepreneurs of MSME contribute just 14 percent financial demand out of the total estimated financial demand. The remaining 27.9 trillion rupees out of 32.5 trillion rupees has to be contributed through external sources of funds. Which means 86 percent of financial demand from the MSMEs has to be outsourced through financial institutions like banks. The Reserve Bank of India has mentioned in a report that only 7 trillion rupees has been supplied by banks and non-banking financial institutions in India. The remaining financial demand of the MSMEs has to be financed by some other external sources of funds like unorganized financial institutions including pawn brokers. This unorganized financial institutions may be a threat to the Indian economy for several reasons. Another estimate of the International Finance Corporation (IFC) found that there is a massive debt gap of 19 trillion rupees and equity gap of 1.9 trillion rupees in the Micro Small and medium scale industries. These numbers makes it clear that there is a huge potential in the space of micro small and medium scale industries for debt finance. There is always a difference in the debt finance service obtained from public sector banks and private sector banks. This article will compare and contrast the difference in service while obtaining credit facilities from public and private sector banks for the micro, small and medium scale industries.

## 2. Literature Review

**Carman J M (1990)** investigated the importance of the dimensions of service quality in retail outlets. The authors adopted the service quality dimensions as given by Parasuraman, Zeithamalet *al.*, (1998) and modified it according to different retail outlets. The authors identified different service quality dimensions in different retail outlets like tire stores, placement centers and dental clinic with little modifications in the dimensions of service quality. In tire stores the author used security, courtesy and access as modified dimension, where as in case of dental clinic the author used convenience and cost as dimensions of service quality.

**Petersen et al., (1994)** in the research article titled “The benefits of lending relationships: Evidence from small business data” has identified the benefits of lending relationship. The research article compared the the relationship between a firm and its lenders through credit availability and cost of raising funds to the firm. The authors finally volume of loan is more important than the price of loan in a lending relationship in other words the lending relationships and their bondage is stronger in a high volume loan than in a low volume loan. The quantities operate the loan than the price paid for the loan.

**Rouse, J. and Jayawarna, D (2006)** conducted aresearch survey to assess the effectiveness of New Entrepreneur Scholarship (NES). This New Entrepreneur Scholarship is a brain child of United Kingdom enterprise program to encourage the budding entrepreneurs. The research study explored whether the New Entrepreneur Scholarship (NES) program has the potential to fund the needs of budding and aspiring entrepreneurs. A sample size of 472 respondents were collected through electronic survey method. Three variables were identified that differentiate the financial needs that are external private investment, personal investment and grants. The author concluded that more than 50 percent of the New Entrepreneur Scholarship (NES) were undercapitalized. This is leading to lower start up investment by the New Entrepreneur Scholars.

**Priyadarshini et al., (2009)** analyzed the service quality gap between the expectations and perception among the Generation Y customers. The authors conducted a research survey in the Business schools of Coimbatore district by taking Generation Y students as their sample respondents. The results of the Gap analysis revealed that the Gen Y customers are having high expectations from their Business schools when compared with the actual service delivery of the Business schools. The authors also added that the satisfaction level of the Gen Y customers are too little since their expectations are at par with the tier I business schools of the nation.

## 3. Research Methodology

Questionnaire interview method was adopted to collect the primary data from the sample respondents. The questionnaire required for the research study was constructed using established scales from previous literature. The primary data required for the research was collected from MSME business customers of Cuddalore district. A sample of 206 respondents who borrowed loans from public and private sector banks were selected. The sample respondents were selected on the basis of convenient sampling method. The secondary data used in the research was collected from bank’s website, Reserve Bank of India Annual Reports, Magazines and refereed books. The statistical tools used in the research includes confirmatory factor analysis, t-statistics, dominance analysis and simple percentage analysis.

## 4. Analysis and Interpretation

The confirmatory factor analysis of the collected primary data showed five distinct factors. Varimax rotation is used for factor analysis. The Table 1 shows the results of rotated component matrix, the factor loadings for each of the factor, the average variance extracted and the cumulative variance explained by the five factors. It was found that the factor loadings

of the five distinct factors are greater than the acceptable limit of 0.70. With the help of factor analysis the five factors are identified and named as ease of getting loan, attributes of loan, attributes of the banker, flexibility and relationship quality. The total variance explained by all the five factors was identified to be 71.82 percent. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) value was found to be greater than the threshold value and the results of KMO is also found to be statistically significant. The results of KMO is depicted in Table 2.

**Table 1: Table Showing Factor Loadings of Rotated Component Matrix**

Constructs	Item	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Ease of Getting Loan	Ease1	0.811	0.242	0.176	0.076	0.314
	Ease2	0.779	0.034	0.221	0.082	0.021
	Ease3	0.749	0.314	0.201	0.082	0.221
	Ease4	0.761	0.021	0.104	0.019	0.201
Attributes of Loan	LAttr1	0.137	0.722	0.137	0.196	0.107
	LAttr2	0.107	0.780	0.164	0.163	0.172
	LAttr3	0.172	0.773	0.137	0.212	0.164
	Lattr4	0.196	0.734	0.119	0.179	0.314
Attributes of Banker	BAttr1	0.199	0.196	0.728	0.141	0.291
	BAttr2	0.141	0.163	0.721	0.029	0.101
	BAttr3	0.179	0.164	0.740	0.163	0.141
	BAttr4	0.291	0.297	0.739	0.161	0.179
	BAttr5	0.101	0.373	0.789	-0.26	0.297
Flexibility	Flex1	0.102	0.041	0.701	0.851	0.211
	Flex2	0.012	0.162	0.616	0.808	0.204
	Flex3	0.126	0.321	0.161	0.806	0.154
	Flex4	0.131	0.143	0.19	0.795	0.121
Relationship Quality	RQ1	0.125	0.201	0.245	0.211	0.774
	RQ2	0.185	0.584	0.185	0.275	0.756
	RQ3	0.261	0.178	0.366	0.162	0.752
	RQ4	0.397	0.035	0.216	0.321	0.742
	RQ5	0.183	0.361	0.121	0.154	0.724
	RQ6	-0.268	0.243	0.017	0.121	0.718
	Explained Variance Per factor	28.15	19.12	12.71	7.13	4.71
	Cumulative Variance Explained	<b>28.15</b>	<b>47.27</b>	<b>59.98</b>	<b>67.11</b>	<b>71.82</b>

**Table 2: Table showing the results of Kaiser-Meyer-Olkin and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.724
Bartlett's Test of Sphericity	Approx. Chi-Square	1725.812
	Df	253
	Sig.	.000

The mean score of the constructs used in the questionnaire was analyzed and the average score of each constructs of the public and private sector banks was compared. The results of the comparative study is depicted in table 3.

**Table 3: Table showing the Mean Score of the Constructs used in Questionnaire**

Constructs	Statements	Public Sector Bank	Private Sector Bank
Ease of Getting Loan	The Bank has simple procedure and paper works during Loan Approval	5.20	6.60
	The Bank has shortest turnaround time for loan approval compared to the industry	5.21	6.61
	The Bank works efficiently while approving SME business loans	5.11	6.56
	The Bank has flexible operating hours to service SME clients	5.27	6.64
Attributes of Loan	The Bank offers Competitive Interest Rates	6.68	5.36
	The bank has convenient tenure of Repayment	6.59	5.17
	Banker covers wide range of Business Loans	5.22	6.61
	Banker is Not so stringent Terms and Conditions	6.60	5.19
Attributes of the Banker	The bank provides one Stop solution to my needs	3.13	6.53
	The bank has good reputation	6.01	5.56
	The employees of the bank are friendly and helpful	3.05	6.73
	The bank offer superior service quality	3.27	6.55
	The bank is transparent and has no hidden charges	5.12	5.95
Flexibility	Customization of SME Loans based on business needs	3.51	6.72
	Flexible with prepayment of loans	6.11	6.55
	No Extra charges for pre closure of loans	6.41	4.13
	Customized payment option	4.02	6.51
Relationship Quality	Trust my bank more when compared to its competitors	6.24	5.31
	Ability of the lender to provide solution for my needs	5.41	6.70
	My strong sense of belonging towards the lender	5.11	6.56
	Convenient for me to use this lender compared to others	5.24	6.62
	Level of satisfaction with my lender	5.16	6.58
	Level of satisfaction with the employees behavior of the lending organization	5.12	6.56

To identify the statistical significance in the difference of the mean score between public sector banks and the private sector banks for each of the factors, t-test was employed. The table 2 shows the mean score of each construct, their respective standard deviation, t-statistic value and the significance value.

**Table 4: Table Showing t- Statistic Results of Public and Private Sector Banks**

Factors	Public Sector Banks		Private Sector Banks		t Statistic value	Significance
	Mean	SD	Mean	SD		
Ease of Getting Loan	5.20	0.07	6.60	0.03	5.82	0.000***
Attributes of Loan	6.27	0.70	5.58	0.69	1.25	0.211+
Attributes of Banker	4.12	1.36	6.26	0.49	2.58	0.011*
Flexibility	5.01	1.46	5.98	1.24	0.93	0.352+
Relationship Quality	5.38	0.44	6.39	0.53	2.85	0.005**

\*\*\*- Significant at 0.001 level. \*\*- Significant at 0.01 level, \*- Significant at 0.05 level,

+ - Not significant.

From the results of the t-test it was found that there is significant difference in the ease of getting loans from public sector banks when compared with private sector banks. In fact the ease of getting loans from private sector banks was comparatively high when compared to the public sector banks. The t-test also revealed that there is a statistical mean difference in attributes of the banker and relationship quality of the private sector banks when compared with the public sector banks. Whereas the attributes of the loan and flexibility did not show any statistical difference between public sector banks and private sector banks.

## 5. Discussion

The MSMEs can make use of the formulated model to predict the SME loan service quality and can decide which banks to apply loans for their financial needs. The MSMEs thus can have a self-assessment and prioritize what has to be improved from their end before the loan process. The financial sector of the nation has to provide helping hands to support the MSMEs in India. The business advisory services, business supply and procurement support for MSMEs has to be enhanced. The finance and investment support of the MSMEs has to improve through Ministry of Small and Medium scale Enterprises.

The dominance analysis of the mean scores for public sector banks showed that the MSME loan customers valued the following attributes of more when compared to the other factors. They are competitive interest rate, no stringent norms, convenient tenure of repayment, no extra charges for pre closure of loans and trust. These attributes are the core competency of the public sector banks. The banks can work on these attributes to improve upon their business.

**Table 5: Table Showing Dominance Analysis of Public Sector Banks**

Item	Statement	Public Sector Banks
LAttr1	The Bank offers Competitive Interest Rates	6.68
LAttr4	Banker is Not so stringent Terms and Conditions	6.60
LAttr2	The bank has convenient tenure of Repayment	6.59
Flex3	No Extra charges for pre closure of loans	6.41
RQ1	Trust my bank more when compared to its competitors	6.24

The dominance analysis of the private sector banks showed that the following attributes are well managed in private sector bank. The attributes like friendly employees, customization of SME loans based on the business need, ability of the lender to provide solution for any business needs of the MSMEs, flexible operating hours as per the convenience of the bankers and convenience. These attributes are unique features of the private sector banks and they can start building on these features to improve the service of their MSME clients.

**Table 6: Table Showing Dominance Analysis of Private Sector Banks**

Item	Statement	Private Sector Banks
BAttr3	The employees of the bank are friendly and helpful	6.73
Flex1	Customization of SME Loans based on business needs	6.72
RQ2	Ability of the lender to provide solution for my needs	6.70
Ease4	The Bank has flexible operating hours to service SME clients	6.64
RQ4	Convenient for me to use this lender compared to others	6.62

The table 7 shows the lowest scoring attributes of the private sector banks, the public sector banks scored low for the following attributes. They are customized payment option, service quality of banks, not providing one stop solution for financial needs, non-cooperative employees. The public sector bank has to improve upon these features to face the competition from the other bankers.

**Table 7: Table Showing Lowest Scoring Items of Public Sector Banks**

Item	Statement	Public Sector Banks
Flex4	Customized payment option	4.02
Flex1	Customization of SME Loans based on business needs	3.51
BAttr4	The bank offer superior service quality	3.27
BAttr1	The bank provides one Stop solution to my needs	3.13
BAttr3	The employees of the bank are friendly and helpful	3.05

The table 8 shows the lowest scoring features of the private sector banks. Higher interest rates, trust on the bank, stringent terms and condition, extra charges for pre closure of loans scored low for the private sector banks. These features has to be improved in the private sector banks to provide superior service quality for the MSME business customers.

**Table 8: Table Showing Lowest Scoring Items of Private Sector Banks**

Item	Statement	Private Sector Banks
LAttr1	The Bank offers Competitive Interest Rates	5.36
RQ1	Trust my bank more when compared to its competitors	5.31
Lattr4	Banker is Not so stringent Terms and Conditions	5.19
LAttr2	The bank has convenient tenure of Repayment	5.17
Flex3	No Extra charges for pre closure of loans	4.13

## 6. Conclusion

The study has a number of implications. Accounting reports has its own influence to help the policy makers to make useful business decisions. In India the introduction of GST has eased the financial management systems, the financial information are now transparent to the government, credit rating agencies and other stake holders of MSMEs. This transparency is making the MSMEs more accountable to the external environment and the society. Which in turn demands high financial literacy from the MSME sector. The MSMEs with “better” financial literacy can make use of their accounting skills and accounting information to an improved credit rating than the firms with poor financial literacy. However the research did not suggest that improved financial literacy will lead to improved credit rating but the owners of small firms should take their responsibility for enhancing the financial literacy skills of the MSMEs, leading to better management of the organization. As business and society are connected to each other, they should cooperate to be mutually advantageous.

The research has a wide range of applications. The research will be useful for the bankers to understand their MSME business customers and helps them to better manage the customers.



The research study will be useful for the academicians to understand the importance of relationship quality in service sector. The research study will be useful for the MSME business customers to understand the advantages and disadvantages of getting business loans from public and private sector banks. The research study will be useful for the policy makers to device the business strategy in order to better serve the MSME customers.

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