

**Socio-Economic Factors Influencing Repayment of Loans Granted by Commercial  
Banks - A Study of Small Scale Industries in Dakshina Kannada and Udupi  
Districts**

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**Abstract**

The present study deals with socio-economic factors influencing repayment of commercial bank loans by small scale industrialists in Dakshina Kannada and Udupi districts of Karnataka State. A total 235 respondents were randomly selected from the two districts and they were given a structured questionnaire by the investigator. The questionnaire contained issues related to defaulting tendency. The data were analysed using chi-square and contingency table test. Results revealed that significantly there were more of non-willful defaulters than willful defaulters. Gender-wise comparison revealed that among males there were more of willful defaulters and among females there were more of non-willful defaulters. Labour force comparison revealed that higher number of employee was with willful defaulters and lower number of employee frequencies was with non-willful defaulters. Education and type of industry did not have significant influence over type of default.

## Introduction

Banks play a very crucial role in the process of economic development of a country, as the latter depends on the availability of cheap, adequate and timely credit to industrialists, traders, farmers, professionals etc. The banking system can influence economic growth by channeling resources into productive purposes. Availability of banking infrastructure is considered as one of the prerequisites for rapid and balanced development of a country.

Apart from raising resources through fresh deposits, borrowing etc., recycling of funds received back from borrowers constitute a major part of funding credit dispensation activity. The success of a commercial bank credit including industrial Credit to small-scale entrepreneurs totally depends on the proper recovery of loans. Non-recovery of installments and also interest on the loan portfolio negates the effectiveness of this process of the credit cycle. Non-recovery also affects the profitability of banks, besides necessitating maintenance of more owned funds by way of capital and creation of reserves and provisions to act as cushion for the loan losses. Non-performing Assets(NPAs), which represent bad and doubtful debts, are endemic in any bank. Avoidance of loan losses is one of the pre-occupations of management of banks. While complete elimination of such losses is not possible, a bank's management aims to keep losses at a low level. In fact, it is the level of non-performing assets, which to a great extent, differentiate between a good bank and a bad bank.

There can seldom be two opinions that problems of NPAs will have to be solved if the commercial banks have to really serve the tasks that have been entrusted to them. The success of any scheme of industrial credit hinges to a considerable extent on the way the beneficiaries respond to such schemes. It is vital that the executors of these programmes strive to derive positive responses from the borrowing community. The commercial banks in Dakshina Kannada and Udupi districts suffer from the problem of NPAs. These have far reaching implications. It is quite evident that the overdues are the consequences of the negative responses of borrowing entrepreneurs. Hence, it would be relevant here to examine the pattern of responses and consequent repayment behaviour of the different

beneficiary groups. This can be done through an analysis of the socio-economic characteristics. Though bringing down the NPAs to zero level is almost impossible for any financial institution, it is however, desirable to keep the NPAs to the barest minimum in order to enable recycling of funds. The effort should be more to tackle the willful defaulters than the casual ones, as 62.9% of the bank managers contacted were of the opinion that willful default was one of the strong causes of an account becoming NPA. In case of casual defaulters steps may be initiated to sort out the problems and put the unit back on a sound track. In case of willful defaulters, severe punitive action may have to be taken. In either of the situations it is desirable to know the socio-economic factors influencing the repayment behaviour. An attempt has been made in that direction in this paper.

The issues analysed in this Paper are based on the data personally gathered from the respondents chosen for the study. In all, the socio-economic characteristic features of 235 defaulters were examined. The discussion of the socio-economic characteristics of the defaulters and their impact on NPA is carried out in two phases. First, certain hypotheses are formulated based on the conclusions of some of the earlier studies in the related areas as well as the popular opinions about default tendencies. Second, the hypotheses are compared with the empirical data obtained from the field survey to establish the relevance and acceptability of the hypothesis. For the purpose of the analysis, the casual defaulter and the willful defaulter is defined as below:

**Casual defaulter:** is one who has excess of expenditure over Income and hence is not in a position to generate cash flows to repay the loans. The reasons for default could be factors beyond the control of the borrower.

**Willful defaulter:** willful defaulting refers to that action of the borrower wherein he deliberately refrains from repaying the debt inspite of having the repayment capacity. A willful defaulter is one who has excess of Income over expenditure and who has adequate cash flows with the help of which he can repay the loan but refuses to do so willfully in order to divert the cash flows for other purposes. Factors influencing willful default are within the control of the defaulter.

## Method

The relevant data for the study has been collected both from primary and secondary sources. Data from secondary sources has been used wherever the primary data is not available or inadequate to support the discussion in this paper. A large part of the analysis depends exclusively on the primary data collected through the survey of defaulting borrowers and bank officials over a period of six months

Statistical Methods like chi-square and contingency table analysis were applied to see the association between selected socio-economic factors and type of defaulters. SPSS for windows (Version 16.0) was employed for the statistical analysis.

The empirical details have been gathered to test the following hypotheses:

- H<sub>1</sub>** Educational background of the borrowers will have no influence on defaulting tendency;
- H<sub>2</sub>** The age of the borrower has no relationship with defaulting tendency;
- H<sub>3</sub>** Gender of the borrower has no relationship with defaulting tendency;
- H<sub>4</sub>** The size of the employees in a firm has no relationship with defaulting tendency;
- H<sub>5</sub>** The Nature of the industry has no relationship with defaulting tendency;

## Sample Design:

The primary data was gathered through the administration of well structured questionnaires to both the bank officials and Small scale entrepreneurs who have availed loans from the Corporation Bank and defaulted. The distribution of the sample drawn from the two sample districts of Dakshina Kannada and Udupi are presented below in table No. 1

Table No. 1

Dakshina Kannada		Udupi		Total
No. of defaulting Borrowers	Sample Size	No. of defaulting Borrowers	Sample Size	
1800	180	550	55	235 (defaulting borrowers)
No. of Bank branches	Sample size	No. of Bank branches	Sample size	
33	25	27	10	35 (Bank branch managers)

### Results and Discussion

The data obtained in the present study were subjected to chi-square and contingency table analysis and following paragraphs provide highlights of the analysis along with verification of the hypotheses.

#### Influence of Education on Defaulting tendency:

Education makes a man, to know not only his rights but also his responsibilities. It refines a man's behaviour and values. Educated citizens are supposed to be enlightened citizens. Hence every government believes that better education to citizens makes them more responsive and responsible and therefore education should be imparted to all. It is quite a well known fact that education in India has remained outside the reach of a large segment of the population. Despite all the efforts by the governments during post Independence period, even to this day, the official literacy rate is around 35 per cent. Illiteracy is said to be one of the prime reasons for most of the problems of our economy and our planners are convinced that the eradication of the problems of the illiteracy through better education would go a long way in solving many of our social, economic and political problems. The general belief is that the illiterate and less educated people normally do not comprehend certain technical aspects of development and often lack the vision of national interest. It is, therefore, possible that they are less responsible in

discharging their duties. Further it is easy for anti-social elements to mislead the uneducated lot so as to serve their own selfish ends. It is quite obvious for one to expect that either because of one’s own attitude or because of outside influence, the illiterate and less educated entrepreneurs may have a tendency of using bank credit and not repaying on time. In the light of this, the following hypothesis was formulated and put to test :

**H<sub>0</sub>: Educational background of the borrowers will have no influence on defaulting tendency.**

The distribution of the defaulters in the sample districts of Dakshina Kannada and Udupi based on their educational level is presented in table #2

Table 2

Distribution of the sample by overall distribution and education-wise classification of willful and non-willful defaulters

Variable	sub-groups		Type of defaulters		Total	Test statistics	P value
			willful	Non-willful			
Overall		F	149	86	235	X <sup>2</sup> =8.617	.003 (S)
		%	63.4%	36.6%	100.0%		
Education	Illiterate	F	4	0	4	CC=0.210	.055 (NS)
		%	100.0%	-	100.0%		
	Up to primary	F	4	4	8		
		%	50.0%	50.0%	100.0%		
	Higher secondary	F	17	12	29		
		%	58.6%	41.4%	100.0%		
	Up to graduate	F	64	38	102		
		%	62.7%	37.3%	100.0%		
	Up to PG	F	31	7	38		
		%	81.6%	18.4%	100.0%		
	Technical degree	F	29	25	54		
		%	53.7%	46.3%	100.0%		

On the whole we find that of the 235 sample selected there were 149 willful defaulters and remaining 86 were non-willful defaulters and chi-square test revealed a significant difference between frequencies of willful and non-willful defaulters. Significantly, we find more number of willful defaulters than non-willful defaulters. However, A non significant association was observed between education and type of defaulters (CC = .

210;  $P < .055$ ) where the pattern of frequencies were same in willful and non-willful categories irrespective of the educational background. Normally illiterate people may not engage in Industrial activities, but may go in for farming operations. There are only 4 small scale entrepreneurs with no educational background. Our survey reveals that all the four respondents who come under illiterate category are willful defaulters. Again a similar number of respondents have education up to primary level. Hence Hypothesis 2 is accepted.

**Influence of age on defaulting tendency:**

The behaviour of an individual normally varies with his age. As one ages, one become more mature and responsible. We were curious to know whether there exists any relationship between the age of the entrepreneur and the repayment behaviour. Hence we have distributed the total respondents into three categories viz., below 40 years, 40-60 years and above 60 years. The data is presented in table 3.

**Table 3**  
**Age group-wise frequency and percent distribution of willful and non-willful defaulters**

Age groups (in years)		Type of defaulters		Total
		Willful	Non-willful	
Below 40	Frequency	21	28	49
	%	42.9%	57.1%	100.0%
40-59	Frequency	103	55	158
	%	65.2%	34.8%	100.0%
60 and above	Frequency	25	3	28
	%	89.3%	10.7%	100.0%

CC=.261;  $P < .000$  (HS)

It is of interest to note that out of 235 defaulters 49 belong to the age group of below 40, 158 belong to the age group 40 to 60 and 28 belong to the age group of above 60 years. Out of 49 defaulters in the age group of below 40, 21 are willful and 28 are non-willful. But in the age group of 40 to 60, out of 158 defaulters 103 are willful defaulters and 55 are non-willful. In the age of group of above 60, out of 28, 25 are willful defaulters and 3 are non-willful defaulters. A significant association was observed between age groups and types of defaulters as the obtained contingency coefficient of 0.261 was found to be

significant at 0.000 level. It is amply clear from the table that more number of willful defaulters were recorded in higher age categories than lower age categories.

A significant association was observed between age groups and type of defaulters as the contingency coefficient of 0.261 was found to be significant at .000 level. It was observed that more number of willful defaulters were recorded in higher age category than lower age category. Further, again a significant association was observed between gender and type of defaulters as the obtained contingency coefficient of 0.128 was found to be significant at .048 level where males were found to be more in number in willful default category and females were found to be more in number in non-willful default category. Hypothesis stated for age groups and defaulting tendency is rejected.

**Gender and defaulting tendency:**

Traditionally, in India the roles for men and women are defined wherein, the women normally look after the domestic responsibilities and men go to the field work. With the passage of time, changes are taking place and women also are getting empowered and there are many successful women entrepreneurs also in the country at present. We have distributed the defaulters based upon the gender and the same has been presented in Table 4.

Table 4

Gender-wise frequency and percent distribution of willful and non-willful defaulters

Gender		Type of defaulters		Total
		Willful	Non-willful	
Male	Frequency	142	76	218
	%	65.1%	34.9%	100.0%
Female	Frequency	7	10	17
	%	41.2%	58.8%	100.0%

CC=.128; P<.048 (S)

It may be seen that out of 235 respondents, 218 are men and 17 are women. Of the 218 male defaulters, 142 are willful defaulters and 76 are non-willful defaulters. As against this, out of 17 women defaulters, 7 are willful and 10 are non-willful. A significant association was observed between gender and the type of defaulters as the

obtained contingency coefficient of 0.128 was found to be significant at 0.048 level where males were found to be more in number in willful categories and female were found to be more in the non-willful default category. Hypothesis stated for gender and defaulting tendency is rejected.

**Influence of Nature of Industry on defaulting tendency:**

The distribution of defaulters based on the nature of the industry has been made in table 5

Table 5

Nature of Industry frequency and percent distribution of willful and non-willful defaulters

Nature of Industry		Type of defaulters		Total
		Willful	Non-willful	
Ancillary	Frequency	17	15	32
	%	53.1%	46.9%	100.0%
Others	Frequency	132	71	203
	%	65.0%	35.0%	100.0%

CC=.084; P<.194 (NS)

It may be seen that the nature of the Industry has been categorised into two, namely, ancillary and others. Our data reveals that out of the total sample members, 203 belonged to other categories whereas only 32 belonged to ancillary category. Out of 203, 132 are willful defaulters and 71 are non-willful defaulters. Again in the ancillary category out of 32, 17 belonged to willful category and 15 belonged to non-willful category, A non significant association was observed between the type of industry and the type of defaulter (CC = 0.084; P < .194) where the pattern of frequencies were same in willful and non willful categories irrespective of the type of industry. Hence hypothesis related to nature of industry and defaulting tendency is rejected.

**Influence of Number of Employees on defaulting tendency:**

The size of the labour force varies from unit to unit depending upon the nature of the product manufactured. We have distributed the respondent units into three categories

depending upon the size of the labour force employed, like below 10, 10 to 20 and above 20 . The relevant survey data is presented in table 6

**Table 6**

Employee-wise frequency and percent distribution of willful and non-willful defaulters

Number of employees		Type of defaulters		Total
		Willful	Non-willful	
Below 10	Frequency	43	43	86
	%	50.0%	50.0%	100.0%
10-20	Frequency	47	17	64
	%	73.4%	26.6%	100.0%
20+	Frequency	59	26	85
	%	69.4%	30.6%	100.0%

CC=.209; P<.005 (S)

It is evident from the analysis of the above table that the units are grouped into 3 categories depending upon the size of the labour force. In category where the size of the labour force is below 10 we observe 86 defaulters of which 43 each belong to willful and non willful category. In the 2<sup>nd</sup> category with a labour force in the range of 10 to 20, there are 64 defaulters, of which 47 are willful and 17 are non-willful defaulters. In the 3<sup>rd</sup> category where the size of the labour force is above 20, we observe 85 defaulters of which 59 are willful and 26 are non-willful. A significant association was observed between the size of the labour force and the type of defaulters (CC = .209; P < .005) where higher number of employee frequencies were with willful defaulters and lower number of employee were with non-willful defaulters. Hence the last hypothesis VI is rejected.

### Conclusions

Main findings of the study are

1. Significantly there were more of non-willful defaulters than willful defaulters
2. Gender-wise comparison revealed that among males there were more of willful defaulters and among females there were more of non-willful defaulters.

3. Labour force comparison revealed that higher number of employee were with willful defaulters and lower number of employee frequencies were with non-willful defaulters
4. Education and type of industry did not have significant influence over willful and non-willful defaulting tendency.

**References:**

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