

FACTORS IMPACTING MICRO FINANCE LOANS IN MICRO, SMALL AND MEDIUM ENTERPRISES: AN EXPLORATORY STUDY

STEGY V J

Full-time Ph.D. Scholar, Nirmala College for women, Coimbatore,

stegyjose@yahoo.in

Abstract

Micro, small and medium enterprises is a major contributor of socio-economic development in India. It is considered as engine for growth of any nation. It plays crucial role in employment opportunity and poverty alleviation. Most of the research have conducted with many factors and variable in different location. The researcher attempted a survey-based research in MSMEs at Coimbatore, Tamilnadu. The study examined the factor impacting the microfinance loan in MSMEs. For the purpose of the study, the sample of 404 entrepreneurs were taken as respondents for Coimbatore district. To explore the variable into reduced factor, the factor analysis has implied. The study indicates the reduced factor are technology upgradation, human resources, profitability and business expansion.

Introduction

Micro, small and medium enterprises sector are very vibrant and dynamic of Indian economy (Jagotra 2017, Islam1 and Ganguly 2019, Ranjan and Gupta 2016). MSMEs comprises more the 90 percent of development in economic growth in developing countries. The entrepreneurs are ease come up with star-up business with low amount of investment, a smaller number of labour and fewer amount of infrastructure facilities. Government's took initiative to strength this sector by enhancing them into global market, competitive strength, enormous of government scheme, subsidy loan, etc., even though there is great support from the government the entrepreneurs are still facing problem like financing, technology upgradation, marketing, labour, export, NPA in bank, etc. to support the sector the government for the categorizing by defining the MSME Act 2006 as follows:

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	Investment in equipment's
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

LITERATURE REVIEW

Geeta (2014), in PhD thesis titled “impact of micro finance in small scale industries development” explained the amount of microfinance is efficiently used in the small-scale industries. The factor used in the study are technology up-gradation, profitability, business expansion and human resource practice. The statistical tools used are regression, Anova and chi-square. The result found that the microfinance does not help in small-scale industries because the borrowers utilize the amount for different purpose.

Tim et al., (2010) in their article titled “Factors influencing small business start-ups A comparison with previous research” examined the demographic variables were regressed with dichotomous dependent variable. The demographic variable taken into study are age, education level, ethnicity, gender, previous employment experience, unemployment, rural versus urban location and family experience with small business or self-employment are treated as independent variable and dichotomous variable are who had established their business and who had not proceeded to foundation. The logistic regression is used in this study. The result found that the potential importance of three demographic variables are gender, previous government employment and redundancy as potential negative influences on small business formation.

Usman and Tahir (2018) in their article examined “factors influencing performance of micro, small and medium scale enterprises in Borno state, Nigeria: an exploratory study”. The factor analysis technique used in the study. The factor found are government policies, infrastructural facilities, entrepreneurial training and insecurity are factors influence on the performance of Micro, Small and Medium Scale Enterprises.

Ranjan and Gupta (2016) in their paper explained “factor analysis of impediments for micro, small and medium enterprises in Bihar”. The factor analysis is implemented to reduce the variable namely taxation, regulatory and political framework, Entrepreneurial Support toward of Competition, Law and Order.

Jagotra (2017) the article examined “challenges in raising credit: a study of MSMEs in Punjab region”. The factor analysis was used to reduce the variable and major hindrances faced by MSMEs in raising credit. The factors are Bureaucratic loan procedure, Poor past records and performance of the firm, Behavior of bank employee and High cost of financing.

METHODOLOGY

The study explored a survey from MSMEs of Coimbatore district who are availing loan through government sponsored scheme. The instrument was collected from 404 MSMEs entrepreneurs in Coimbatore district. The instrument was distributed to 450 entrepreneurs after incomplete questionnaire, outliers and data cleaning the 404 MSMEs respondent were taken to study. The instrument was developed with five-point Likert scaling (5- highly agree to 1-highly disagree) twenty-six variables that were reduced to nineteen items after testing the reliability.

The analysis adopted were factor analysis to reduce the items into meaningful factor, the varimax rotation used for rotating the factor, to determine the adequacy of sampling the Kaiser Mayer Olkin (KMO) and Bartlett's test Sphericity were implied. The variables are partially based on earlier study on impact of microfinancing in small scale industries development. (Vishal Geeta, 2014).

RESULTS

Reliability Test

Table 1 show the internal consistency and reliability of item in each variable. The Cronbach alpha coefficient show satisfactory with minimum benchmark of 0.07 (Cronbach,1951). Hence all four factors show the item are reliable and consistent in measurement.

Table 1
Test of Reliability

Factor	No. of Items	Cronbach's Alpha
Technology upgradation	5	.721
Human resources	4	.745
Profitability	5	.737
Business expansion	5	.739

Exploratory Factor Analysis

Exploratory factor analysis is to underlying structure among the variables in the analysis. Hair et al., (2010). The KMO test of sampling adequacy range from 0 to 1 and Bartlett's test examine the correlation among the variable are significant.

Table 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.760
Bartlett's Test of Sphericity	Approx. Chi-Square	2049.976
	df	325
	Sig.	.000

The result of Kaiser Mayer Olkin (KMO) value is 0.760 which exceed the benchmark (0.07) from Hair et al (2010). The Bartlett's Test Sphericity value obtained the chi-square value is 2049.976 with sig value of 0.000. Based on this test the correlation matrix declared for the further processing with factor analysis. The communality values are from .513 to .987 for each item exceeded .50 benchmark (Hair et al., 2010).

Table 3
Communalities

	Initial	Extraction
Profit 1	1.000	.584
Profit 2	1.000	.645
Profit 3	1.000	.513
Profit 4	1.000	.578
Profit 5	1.000	.522
Busex1	1.000	.631
Busex2	1.000	.639
Busex3	1.000	.967
Busex4	1.000	.530
Busex5	1.000	.679
Techup1	1.000	.784
Techup2	1.000	.524
Techup3	1.000	.532
Techup4	1.000	.592
Techup5	1.000	.595
Humre1	1.000	.987
Humre2	1.000	.987
Humre3	1.000	.610
Humre4	1.000	.557

Extraction Method: Principal Component Analysis.

The total variance explained by 53 percent of the variables having Eigen values >1 is (Williams, Onsmann & Brown, 2010; Hair et al., 2010;).

Table 4
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.724	19.600	19.600	3.724	19.600	19.600	2.250	11.840	11.840
2	2.204	11.599	31.200	2.204	11.599	31.200	2.156	11.347	23.188
3	1.583	8.331	39.530	1.583	8.331	39.530	2.102	11.062	34.250
4	1.374	7.230	46.760	1.374	7.230	46.760	2.048	10.776	45.027
5	1.269	6.680	53.440	1.269	6.680	53.440	1.599	8.414	53.440
6	1.017	5.353	58.793						
7	.952	5.010	63.803						
8	.895	4.712	68.515						
9	.801	4.218	72.733						
10	.749	3.942	76.675						
11	.705	3.710	80.385						
12	.694	3.651	84.037						
13	.646	3.398	87.434						
14	.566	2.980	90.414						
15	.528	2.777	93.191						
16	.471	2.480	95.671						
17	.446	2.345	98.017						
18	.377	1.983	100.000						
19	-	-							
	2.188	1.152E-16	100.000						

Extraction Method: Principal Component Analysis.

The rotated factor matrix on table 4.2 shows all factor loadings are significant (>.50) and load on other construct.

Table 5

	Rotated Component Matrix^a				
	Component				
	1	2	3	4	5
Techup1	.638				
Techup2	.653				
Techup3	.688				
Techup4	.579				
Techup5	.573				
Humre1		.984			
Humre2		.984			
Humre3			.752		
Humre4			.735		
Profit 1				.634	
Profit 2				.599	
Profit 3				.557	
Profit 4				.581	
Profit 5				.637	
Busex1					.507
Busex2					.783
Busex3					.652
Busex4					.541
Busex5					.584

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

The factor analysis achieved best fit with five constructs loading using principal component analysis and all factor loadings are greater than 0.50. Therefore, it can be concluded that these factors are valid and the best factors to presented in future models.

CONCLUSION

The nineteen variables in the data were reduced into four component factors and in rotated component matrix, the second and third component has two items in each which together formed into one component as follows:

Table 6

Variables code	Statements	Factors
Techup1	Purchasing the new machinery	Technology upgradation
Techup2	Latest technology	
Techup3	Purchased computers, printers, office equipment	
Techup4	Increased efficiency through latest technology	
Techup5	Expanded your business	
Humre1	Recruit highly qualified professional	Human resources
Humre2	Trained employees	
Humre3	Recruit skilled workers	
Humre4	Performance of employees after training	
Profit 1	Profit through new machinery	Profitability
Profit 2	Profit through new clients	
Profit 3	profit through distribution in new markets	
Profit 4	Profit through export	
Profit 5	Profit through new qualified professionals	
Busex1	Purchase raw material at cheaper rate	Business expansion
Busex2	Meet your nearest competitors	
Busex3	Promote your product through advertisement	
Busex4	Appointed of new dealers and agents	
Busex5	Increased your sale volume	

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