

Perceptions of Small Scale Firms towards Bank Financing: An Empirical Study

Mandeep Kaur

Guru Nanak Dev University, Amritsar, Punjab, India

Ubique

Lyallpur Khalsa College, Jalandhar, India

Abstract

The MSMEs has acquired a prominent place in the economy of the country. It has contributed extensively to the growth of the exports, employment generation and the Gross Domestic Product (GDP). The economic reforms in the form of liberalization, privatization and globalisation have forced the MSMEs for intense competition. Moreover, in the present competitive world, firm's competitiveness has become a need and not a choice. Their competitiveness has now become desirable not only for optimal utilization of resources but also for maintaining the livelihood of millions in a sustainable way. Despite the recognition of important role played by small scale industries in economy, financial barriers prevent them from developing and contributing sufficiently. The present paper attempts to explore the major factors perceived by small scale firms while taking loan from banks. Data was collected through primary sources by framing a well-structured questionnaire. Factor Analysis was applied on data to get the authentic results. The results revealed that the Basic Loan Considerations, Guidance Regarding Terms and Conditions of Loan, Easy Processing of Loan, Nature of Business, Relationship Banking, Loan Utilisation Efficiency, Competence of Firm, Banking Initiatives and Procuring the Loan at the Doorstep had been identified as important factors by small scale firms while taking loan from commercial banks.

Keywords: Small Scale Industries, Intense Competition, Financial Constraints and Factor Analysis

JEL Classification: G21, G32, L26, L60

Paper Classification: Research Paper

Introduction

Finance is the backbone of any corporate firm to survive in the competitive world. For the growth and development of firms, access to formal credit market is very important. The formal credit market includes commercial banks, co-operative banks, foreign banks and non-banking financial institutions which are the major suppliers of credit to households and private business. Moreover, banks are proved to be the most vital source of finance for any business. As banks are the largest repositories of financial resources, they act as key allocators of finance (Parikh, 1977). The finance is all the more important for small scale firms in a fast-changing economy

because of the pace of innovation. Small scale industries, with high growth potential, have played a significant role in raising efficiency and maintaining competitiveness in recent years. But innovative products and services need adequate amount of funds to thrive. If Small scale industries (SSIs) cannot get the finance they need and in specific time period, brilliant ideas may fall by the wayside and this represents a loss in probable growth of the economy (OECD, 2006).

Moreover, small scale industries are exclusively identified for promotion of the service and manufacturing sector of the national economies. Further, most of the large scale industries usually start as small enterprises so the capability of small scale industries to expand becomes necessary for any economy to flourish. According to (Torre et al., 2010), "Small scale industries are found to be more opaque as compared to large scale industries as far as disclosure of information is concerned. Hence they are financially more constrained and more dependent on bank loans."

For a bank, the limited information available about the small scale industries increases the risk associated with them in providing finance, which induces the banks to decrease loan repayment period and to increase the rate of interest. According to Chandraiah and Vani (2014), most of the small scale entrepreneurs are scared of applying for loans from commercial banks due to illiteracy, high interest rate, collateral requirement and so on. Antony Raj (2012) and Nageshwara (2012) revealed the opinion of entrepreneurs that there is delay in sanctioning of loan by the banks due to excess documentation at the time of sanctioning of loan. Emphasizing on the factors that determine small scale industries access to credit, Alhassan and Sakara (2014) argued that socio-economic factors which are determined significant by small scale industries regarding access to bank finance are experience of using credit, number of employees, number of fixed assets possessed, form of business and attitude of bank towards risk. The financing of small scale enterprises has attracted much attention in recent years. Reserve Bank of India from time to time has made various regulations and policies to enhance the credit flow to small scale sector. Despite all these regulations, there is evidence of constrained access to bank credit by small scale industries which act as hindrance to growth and development of these firms.

Despite the major role played by them in the economy of the nation, they have to depend on informal sector to fulfil their financial requirement. The informal sector is generally characterised by high rate of interest, small loan amounts and short maturity period which is not conducive for long term development. A number of studies have shown that access to finance is a great obstacle for small scale industries particularly in developing countries like India and adversely affects the growth and development of small firms.

Theoretical Background

Ekpenyong and Nyong (1992) revealed that availability and accessibility to credit was found to be crucial for the small firms. The study further exposed that majority of small scale industries in Nigeria had been harassed by government and formal financial institutions so they shifted from personal savings and banks to the informal financial institutions which included money lenders, co-operative societies, friends and relatives. Abor and Biekpe (2006) considered lack of knowledge of financial institutions regarding the nature of the clients' business, lack of knowledge of firms about lending criterion, delayed processing of applicants' proposals and unavailability of financial performance track record as the major hindrances for the small scale firms while applying for funds from banks. Patankar (2008) provided an overview that only 17% of the Small scale industrial units are able to access finance from banks and most of them depend more on internally generated funds or informal financing channels for their expansion and modernization requirements. Quader and Abdullah (2009) attempted to identify the major problems faced by

SMEs in Bangladesh using varimax normalisation method. The study revealed that the major constraints faced by small scale firms while accessing loan are high lending rates, government's regulatory constraints, small domestic market size and collateral requirements. Mishra and Brahme (2011) evaluated the role of financial policies among informal as well as formal credit institutions in determining the access of credit to small scale industries in Chattisgarh. The analysis of the research shows that the limited credit used by small scale industries reflects lack of supply, resulting from the rationing behaviour of both informal and formal financial institutions.

Bbenkele (2007) and Messah and Wangai (2011) analyzed the factors that influenced participation of MSE operations in the formal credit markets. (Osotimehin et al., 2012) identified that factors like lack of capital and high cost of procuring operational equipment are the basic problems which hinder the growth of small and medium enterprises. Further, Chandraiah and Vani (2014) revealed that small scale industries faced constraints like lack of availability of timely and adequate credit, high cost of lending, collateral security requirements, limited access to equity capital, lack of proper infrastructure facilities and so on. Selvaraj and Kumar (2015) studied the attitude of the owners of the small scale firms towards lending services of banks. The results revealed that consideration of the loan on the recommendations of DIC, the adequacy of working capital loans and reasonable rate of interest were the important factors determining the attitude of entrepreneurs while availing lending facilities from Bank.

Ramanaiha (2011), Adejumo and Olaoye (2012), Nishant and Zakkariya (2014), Veerappan and Sathishkumar (2016) further revealed that SSIs exhibited good performance in previous years and there is a need to strengthen the sector through strategic measures. All these problems can be solved to a large extent if the bottleneck of finance once taken care of.

Research Gap and Contribution of Study

A number of studies are undertaken at national and international levels regarding financial constraints of small industries. A limited number of studies are available at state as well as district levels showing the factors that influence small scale firms while taking loan from banks to fulfill their capital requirement. The proposed study aims at filling the gap in this context by focusing on factors that are considered important by SSIs while taking loan from banks. The findings of the study will be helpful for banks as they will come to know the significant factors perceived by small scale firms while applying for loan from banks. It will help the banks to improve the relationship banking with small scale industries.

Database and Research Methodology

(i) Objectives of the study

The specific objectives of the study are:

- (1) To explore the major factors perceived as important by small scale industries while taking loan from the bank.

- (2) To find out the preference of small scale industries regarding sources of capital to be used in future.
- (3) To suggest measures for solving the financing problems of the small scale industries.

(ii) Method of Data Collection

The study was based on primary data. For the collection of data, questionnaire was developed based on the review of literature and discussions with the experts in the relevant area. The questionnaire comprised two parts. The first part is related to demographic profile of the small scale firms and the second part consists of items considered important by SSIs while taking loan from banks. Data was collected from 250 small scale firms comprising five sub sectors: Machinery Parts, Hand tool, Leather, Textile and Food Products firms from Jalandhar, Amritsar and Ludhiana district of Punjab.

(iii) Sampling Technique Used

Data was collected through judgment sampling. Only those small scale firms were approached who had taken loans for working capital and fixed capital requirements from commercial banks. Field survey method was adopted to collect first hand information from the entrepreneurs of 250 small scale industries.

(iv) Statistical Tools Used

To explore the factors perceived as important by small scale industries while taking loan from banks, twenty eight variables were selected on the basis of the review of literature. A five- point scale ranging from 1 to 5, 1 being "Most unimportant" to 5 being "Most important" was used. In order to analyze the collected data, Factor Analysis has been employed. Moreover, Descriptive Statistics (i.e. frequencies, mean and ranking method) were used to find out the preference of small scale firms regarding sources of capital to be used in future.

(v) Sample Characteristics

As far as the demographic profile of the small scale firms is concerned, the sample comprised variety of firms belonging to different years of establishment, form of ownership and level of investment.

Table 1 shows the demographic profile of sampled small scale firms. As far as the year of establishment of sampled small scale firms were concerned, 29.6 per cent of the firms were established during the period 1951 to 1970, 42 per cent within the period 1971 to 1990 and 28.4 per cent during period 1991 to 2010. As per the type of ownership categorisation, 59.2 per cent were Partnership, 31.6 per cent were Sole Proprietorship and 9.2 per cent were Private Limited firms.

Table 1: Demographic Profile of Sampled Small Scale Firms

Particulars	Variables	Frequency	Percent
Year of Establishment	1951-1970	74	29.6
	1971-1990	105	42
	1991-2010	71	28.4
	Total	250	100
Form of Organisation	Partnership	148	59.2
	Sole- Proprietorship	79	31.6
	Private Limited	23	9.2
	Total	250	100
Type of Industry	Machinery Parts	50	20
	Hand Tools, Pipe Fitting	40	16
	Leather	60	24
	Textile	50	20
	Food	50	20
	Total	250	100
Background	Business	164	65.6
	Agriculture	86	34.4
	Service	0	0
	Total	250	100

As far as type of Industry was concerned, 24 percent belonged to Leather industry, 16 percent were Hand tool firms. Machinery parts, Textile and Food Product firms had 20 percent share each in the sample of 250 firms.

Results and Discussion

To find out the factors perceived by small scale firms while taking loan from banks, 28 items were selected based on the review of literature. The respondents were asked to give their responses regarding these items on five point Likert scale ranging from 5 (most important) to 1 (most unimportant). Data so collected was subjected to Factor Analysis. Factor Analysis is a data reduction technique which is used to resolve a large set of measured variables in terms of few categories, known as factors. These factors explain the correlations among a set of variables (Malhotra & Dash, 2011).

Before applying the Factor Analysis, a number of initial tests were conducted to determine the suitability of data for analysis. First of all, Cronbach's alpha was used to check the reliability as it is a measure to test the internal consistency of the scale.

The value of Cronbach's alpha above 0.60 can be used as a reasonable test of scale reliability (Gaur & Gaur, 2006). Value of Cronbach Alpha in the study was found to be .625 which is considered as good value and hence questionnaire was taken as an acceptable instrument to be administered.

Table 2: Reliability Statistics

Cronbach's Alpha	No of Items
.625	28

Source: Calculated through SPSS

Further, Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy were used to examine the correlation and sample adequacy. The overall significance of correlation matrices is tested with Bartlett's test of Sphericity, statistically significant at ($p < 0.05$) that supports the validity of data and if the Kaiser-Meyer-Olkin measure is 0.6 or above, then it is assumed that sample is sufficient to run the Factor Analysis (Field, 2000).

Table 3 shows KMO measure of sampling adequacy and Bartlett's test of sphericity. Calculated value of KMO in the current study is 0.661 meaning hereby that sample is adequate to apply the Factor Analysis. Bartlett test of sphericity (Bartlett, 1950) is another test applied in the study for verifying appropriateness, whose value is found to be significant. Consequently, Factor Analysis has been applied to extract the factors using principle component analysis.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.661
Bartlett's Test of Sphericity	Approx. Chi-Square	2932.251
	Df	378
	Sig.	.000

Source: Calculated through SPSS

Principle Component Analysis

Furthermore, factors were extracted on the basis of Eigen value. The amount of variance associated with the factor is represented by Eigen value. Only those factors were retained which have Eigen value greater than 1. In addition to it, Varimax Rotation method was applied to rotate the factors.

While applying Factor Analysis, factor loading below 0.40 were ignored for the purpose of further analysis (Chawla & Sondhi, 2011). After running the Factor Analysis, 28 items were reduced to nine factors. The Varimax Rotated nine factor satisfactory solutions so derived is shown in the Table 4. Further, Malhotra and Dash (2011) recommended that the factors extracted should account for at least 60% of the variance. In the current study, nine factors were accounted for 68.644% variation in the data (Table 4).

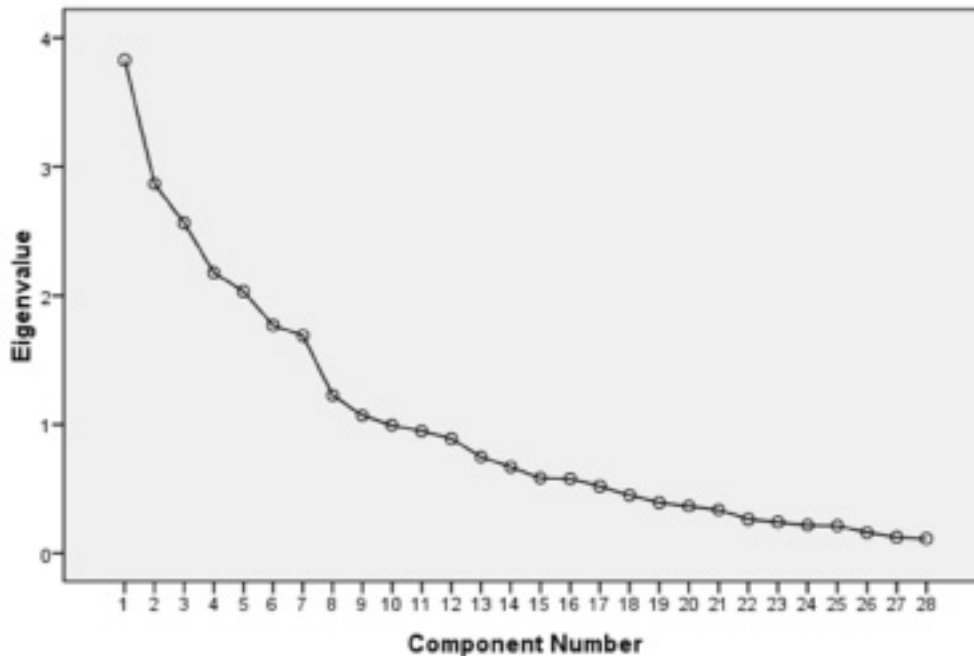
Table 4: Total Variance Explained

Component	Initial Eigen Values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.828	13.671	13.671	3.828	13.671	13.671	3.604	12.871	12.871
2	2.868	10.243	23.914	2.868	10.243	23.914	2.431	8.682	21.552
3	2.563	9.155	33.069	2.563	9.155	33.069	2.418	8.634	30.186
4	2.177	7.774	40.843	2.177	7.774	40.843	2.132	7.615	37.801
5	2.032	7.259	48.102	2.032	7.259	48.102	2.092	7.472	45.273
6	1.768	6.315	54.417	1.768	6.315	54.417	2.037	7.274	52.546
7	1.689	6.032	60.449	1.689	6.032	60.449	1.742	6.221	58.768
8	1.225	4.376	64.826	1.225	4.376	64.826	1.455	5.198	63.965
9	1.069	3.818	68.644	1.069	3.818	68.644	1.310	4.678	68.644

Source: Calculated through SPSS

Scree Plot: It is a diagrammatical presentation of numbers of factors. It is a plot of the eigen values against the number of factors in order of extraction. In this diagrammatical presentation, Eigen values are valued at y-axis and factors are presented on x-axis. The scree plot with nine factors has been shown below:

Scree Plot



The summarized results of Factor Analysis have been shown in Table 5. Table 5 shows that the first factor, termed as Basic Loan Considerations, explained 12.871% variation in the data, with an Eigen value of 3.828. It contains five items namely 'Rate of Interest (.890)', 'Time Taken to Sanction Loan (.885)', 'Purpose for Which Loan is Taken (.870)', 'Familiarity of Bank Employees (.822)' and 'Collateral Security (.635)'. Thus, 'Basic Loan Considerations' was considered as the most important factor by small scale firms while taking loan from bank. These findings are similar to the findings of Kimutai and Ambrose (2013). The findings indicated that the small scale industries are incapable in providing information (regarding their business) required by banks. It was found from the literature that most of the small scale entrepreneurs were scared of applying for loan from commercial banks due to Poor Level of Education that is, illiteracy, High Interest Rate, Collateral Requirement and so on. Moreover, delay in sanctioning of loan leads to loss of production, sale and goodwill and this also delays the payment to creditors.

Table 5: Factors Perceived by SSIs While Taking Loan from Banks

Sr. No.	Name of Factors	% of Variance	Initial Eigen Value	Factor Loadings	Variables
1	Basic loan considerations	12.871	3.828	.890	Rate of interest
				.885	Time Taken to Sanction Loan
				.870	Purpose for which loan is taken
				.822	Familiarity of Bank Employees
				.635	Collateral security
2	Guidance Regarding Terms and Conditions of Loan	8.682	2.868	.882	Documentation
				.878	Non Availability of Loan from other sources
				.850	Behavior of bank employees
3	Easy Processing of Loan	8.634	2.563	.899	Terms of Repayment
				.874	Cost of Processing Loan
				.763	Location of Bank Branch
				.433	Lack of Knowledge of Drafting the Proposal
4	Nature of Business	7.615	2.177	.906	Disclosure of Information
				.796	Form of Business
				.747	Nature of Industry
5	Relationship Banking	7.472	2.032	.926	Reliability of bank
				.917	Track record of past dealing
				.512	Long term relation with bank
6	Loan Utilization Efficiency	7.274	1.768	.844	Efficiency of Executives
				.840	Loan Utilization Capacity of Firm
				.718	Repayment Period
7	Competence of Firm	6.221	1.689	.827	Affiliation With Business Association
				.742	Size of Business
				.652	Capital Invested by Firm
8	Banking Initiatives	5.198	1.225	.831	Attractive financial schemes
				.791	Amount granted by bank relative to the amount requested
9	Procuring Loan at the Door step	4.678	1.069	.696	Procedure of Taking Loan
				-.525	Specialized SSI Branches

Source: Calculated through SPSS

The second factor, named as 'Guidance Regarding Terms and Conditions of Loan' explained 8.682% variation in the data, having eigen value of 2.868. It included three items namely 'Documentation (0.882)', 'Non Availability of Loan from Other Sources (.878)' and 'Behaviour of Bank Employees (0.850)'. While applying for loan from banks, small scale firms need proper guidance regarding terms and conditions of the loan structure. Excess documents lead to delay in sanctioning of loan and for less literate people; it is not possible to complete all the documentation without the help of bank employees. Kulkarni (2007) observed that borrowers were not contented with the quality of services provided by the bank staff. Nageswara Rao (2012) focussed on the fact

that number of documents to be submitted to banks for sanction of loans should be reduced as more documentation results in delay of the sanctioning of the loans and small scale firms had to adopt other sources of finance.

The third factor, named as 'Easy Processing of Loan' was responsible for 8.634% of variation, having eigen value of 2.563. It consisted of four items such as 'Terms of Repayment (.899)', 'Cost of Processing Loan (.874)', 'Location of Bank Branch (.763)' and 'Lack of Knowledge of Drafting the Proposal (.433)'. Nageswara Rao (2012) supported the results with the fact that one-fourth of the borrowers were not able to repay the loans due to loss incurred in the business. Moreover, Hossain and Uddin (2006) considered repayment policy of banks to be unfavourable for entrepreneurs followed by lack of knowledge regarding the system of taking loan from banks, time-lag between the sanctioning of loan and actual disbursement. (Gichwki et al., 2014) also recognized that Repayment Period and Loan Processing Fees effected access to credit to a great extent.

The fourth factor 'Nature of Business' was a combination of three items. This factor explained 7.615% of the total variance and 2.177 eigen value. The items were 'Disclosure of Information (.906)', 'Form of Business (.796)' and 'Nature of Industry (.747)'.

Such factors enhance the credit worthiness of a business that facilitates the access to loan from the banks. The favourable position (in terms of internal strength) depicts long term growth and survival of the business which is required to fulfil the financial obligations of the business. Often the problem of insufficient information provided by small scale firms to banks is described as one of the main aspects that limit the bank finance to MSMEs (Kimutai and Ambrose, 2013). Only those firms can satisfy banks by disclosing required information who maintains proper books of records.

The fifth factor, labelled as 'Relationship Banking' was responsible for 7.472% variation, with an eigen value of 2.032. It included three items such as 'Reliability of Bank (.926)', 'Track Record of Past Dealing (.917)' and 'Long Term Relation with Bank (.512)'. Lending to small scale industries relies on relationships between borrowers and lenders (Berger & Udell, 2006). Longer relationship tends to lower the cost of the credit and tends to decrease the collateral requirements significantly. The long lasting relationship between firm and bank is beneficial to both bank and firm. Moreover, Relationship Banking help lenders to acquire some important information such as the production environment, staff quality of enterprises and organizational system which cannot be gained from the collateral securities, credit rating and financial statements of firms. Thus, it helps banking institutions to better cope with the dilemma of low transparency of information in small scale enterprises (Hua, 2009).

The sixth factor, 'Loan Utilization Efficiency' explained 7.274% of the total variance with 1.768 eigen value. It carried three items 'Executive Efficiency (.844)', 'Utilization Capacity of Loan (.840)', and 'Repayment Period (.718)'. (Gichwki et al., 2014) also considered Short repayment period and lack of proper utilization capacity of loan as the major constraints for small scale enterprises while applying for loan from banks. The Seventh factor 'Competence of Firm' was combination of three items. It explained 6.221% of total variance and 1.689 eigen value. Items included were 'Affiliation with Business Association (.827)', 'Size of Business (.742)' and 'Capital Invested by Firm (.652)'. Pandula (2011) supported the study by indicating that having membership with business association and education of the entrepreneur were significantly associated with access to bank finance. (Osoimehin et al., 2012) identified lack of capital and high cost of procuring operational equipments as the basic problems which hinder the growth of small and medium enterprises. According to Alhassan and Sakara (2014), affiliation with business association and number of

business development trainings attended, were not considered to be important in determining their access to credit from banks.

The eighth factor, named as 'Banking Initiatives' consisted of two items with 5.198% of the total variance and 1.225 eigen value. It included statements like 'Attractive Financial Schemes (.831)' and 'Amount Granted by Bank Relative to Amount Requested (.791)'. Antony Raj (2012) supported the results by considering the amount granted by bank as an important factor by small scale firms while taking loan from bank. Kulkarni (2007) and Vora (2008) supported the results with the views that there was a significant difference between the target amount and disbursed amount of credit to small scale sector by banks which means that banks are unable to fulfil their financial requirement. The ninth factor 'Procuring the Loan at the Door step' also comprised two items namely 'Procedure of Taking Loan (.696)' and 'Specialised SSI Branches (-.525)'. Existing regulatory framework and evaluation procedures made it difficult for business to access support from financial institutions. Moreover procedure of taking loan is considered to be time consuming by small scale firms. Negative loading of (-.525) shows that there is lack of specialised SSI branches in their area due to which small firms find it difficult to apply for loans and to fulfil all the formalities. To solve this problem, banks are directed by Reserve Bank of India to open more specialised SSI branches which deal only with small scale industries, so as to provide credit facilities to SSIs at their doorstep within a short time.

Preference of Small Scale Industries Regarding Sources of Capital to be Used in Future

To analyze the second objective i.e. to find out the preference of small scale industries regarding sources of capital, they would like to use in future to fulfil their financial requirement, SSIs were asked to rank the sources of capital in order of priority. Source of finance with the lowest mean is the highly preferred source. Responses given by the entrepreneurs according to their priority of using the various sources to fulfil their future financial requirements are shown in Table 6.

Table 6: Preference of Sources of Capital

Preference	Mean Value	Rank
Own Funds	1.148	1
Loan from Banks	2.188	2
Contribution from Friends and Relatives	3.252	3
Loan from NBFCs	3.612	4
Lease Financing	5.056	5
Loan from Indigenous Lenders	5.752	6
Issue of Shares to Public	7.108	7
Venture Capital	7.892	8

Source: Calculated through SPSS

The survey results demonstrate a clear preference for using their own funds (1.148) to finance working and fixed capital requirement. 'Bank Loan' (2.188) has been given the second rank and the third rank has been given to 'Contribution from Friends and Relatives' (3.252) followed by 'Loan from NBFCs' (3.612), 'Lease Financing' (5.056) and 'Indigenous Lenders' (5.752). Venture Capital and Issue of Shares found no importance among the surveyed units as a source of finance as they had never used these sources to finance their capital requirement. To most of the units surveyed, the meaning and utility of the sources i.e. venture capital and issue of shares had to

be explained. As units surveyed were not familiar with these sources so they had given them the seventh and the eighth rank. Kumar (1999) also depicted that venture capital, issue of shares and lease financing are least preferred sources of finance among the small scale firms. Further, these findings accord well with the previous studies namely Uremadu et al., (2014); Yadav, (2013); Singh & Singh, (2014); Singh & Janor, (2013). The results show a clear preference of using retained earnings, if they are not sufficient, then small scale firms prefer bank loans and contribution from friends and relatives.

Findings and Suggestions

The first objective of the current study explored the factors that were perceived as important by small scale firms while taking loan from banks. Based on the findings of the study, it was revealed that nine factors significantly influence the small scale industries while taking loan from banks. Basic loan considerations, guidance regarding terms and conditions of loan, easy processing of loan, nature of business, relationship banking, loan utilisation efficiency, competence of firm, banking initiatives and procuring the loan at the door step had been identified as important factors by small scale firms. The study showed that basic loan considerations like rate of interest, collateral security, purpose of taking loan and time taken to sanction loan were considered as most important by small scale firms. To fulfil their working and fixed capital requirements, small scale firms need adequate amount of finance in specific period of time. Extensive documentation and complex procedures generally delay the sanctioning of loan which results into loss of production and sale to small firms. Therefore, due to lack of knowledge regarding procedure of taking loan and inability to pay collateral security and high interest rate, most of the SSIs preferred to use personal savings and contribution from relatives and friends.

Moreover, small scale entrepreneurs try to take loan from those banks whose employees are familiar to them. The employees' guidance, advice and help lead to successful execution of loan to the entrepreneurs. Further, terms of repayment and cost of processing loan were considered important aspects by small firms. Singh and Janor (2013), Imafidon and Itoya (2014), Kimutai and Ambrose (2013) supported the findings of the study with the views that formal lending, particularly through term loans, is one of the main source of external financing for small business as banks help small scale firms to maintain cash flow, acquire new inventory or machinery, hire new employees and flourish their business. Alhassan and Sakara (2014) highlights that banks consider the small scale industries strategically important and ready to provide credit to them if these industries accomplish all the basic considerations such as collateral security, rate of interest, procedural formalities and repayment of loan at maturity period. Moreover, banks are directed by Reserve Bank of India to reduce the formalities and paper work to some extent to make the loans easily accessible to small scale sector.

The second objective of the current study analyzed the preference of small scale industries regarding sources of capital they would like to use in future to fulfil their financial requirement. Entrepreneurs of small scale firms were asked to rank the sources of finance in order of priority. The results revealed that self raised finance appears to be highly preferred source of finance in case funds are needed for expansion and diversification of business. Further, commercial bank loan also seems to be preferred source as it is given the second rank by small scale industries. Singh and Janor (2013) pointed out that commercial banks are providing financial assistance to partnership firms and sole proprietors and hence, they are treated as one of the preferred source of finance by small scale firms.

It is suggested from the above findings that banks should provide consultancy services and professional guidance at the time of providing long term and short term loan to small units which will definitely help small scale firms to understand the procedures and kind of the documentation required for getting loan from banks. Further, banks should try to create awareness among small scale firms regarding the kind of assets they can use as collateral security so that firms do not hesitate to approach banks to apply for loan. Hence, regular interaction of commercial banks with SSI clients can build up confidence between both the parties.

The more SSI branches should be opened in the districts. Branches created should be supported adequately in terms of infrastructure, technology and expertise. Further, it is suggested that small scale entrepreneurs should focus on formal functioning with other business models to ensure enhanced financial access and growth of the sector. In addition to this, there is also a need to explore alternative sources of funds which could contribute to reduce SSIs' dependence on bank credits.

Conclusion

The aim of the study was to determine the factors that are perceived as important by small scale industries while taking loan from the bank and to find out the preference of small scale industries regarding sources of capital to be used in future. The findings indicated the nine factors which are considered as very important by small scale firms when they apply for loan. To fulfil their working and fixed capital requirements, small scale firms need adequate amount of finance in specific period of time. Extensive documentation and complicated procedures generally delay the sanctioning of loan which results in loss of production and sale to small firms. Due to these reasons, small scale firms considered own funds as the most preferred source of finance. So, there is need to strengthen the relationship between bank and borrower in such a way that relationship lending is given importance along with transaction based lending.

Limitations of study

1. Sample was taken from three cities of Punjab only. Hence, an extensive sample might generate different findings.
2. The responses given by respondents may suffer from personal bias so it could affect the results of current study.
3. Both the time and cost factors have been the constraints while conducting the study.

Scope for further research

- The study can be carried out by analyzing the relationship of financial schemes of banks and performance of MSMEs.
- Impact of relationship lending on performance and growth of MSMEs can be carried out.
- The study can be carried out by taking banks' perspective while providing loan to small scale firms.

References

- Abor, J., & Biekpe, N. (2006). Small Business Financing Initiatives in Ghana. *Problems and Perspectives in Management*, 4(3), 69-75.
- Adejumo, D.G., & Olaoye J.A. (2012). Roles and Problems of Small Scale Business Development Programmes in Nigeria. *International Journal of Management and Business Studies*, 2(1), 76-82.



- Alhassan, F., & Sakara, A. (2014). Socio-Economic Determinants of Small and Medium Enterprises: Access to Credit from the Barclays Bank in Tamale-Ghana. *International Journal of Humanities and Social Science Studies*, 1(2), 26-36.
- Antony Raj, M. (2012). *An Analysis of Problems and Prospects of Small Scale Industrial Units in Krishnagiri District* (Doctoral Dissertation, Periyar University, Dharmapuri). Retrieved from <http://hdl.handle.net/10603/40202>
- Bartlett, M.S. (1950). Tests of significance in factor analysis. *British Journal of Statistical Psychology*, 3, 77-85.
- Bbenkele, E.K. (2007). An Investigation of Small and Medium Enterprises Perception Towards Services Offered by Commercial Banks in South Africa. *African Journal of Accounting, Economics, Finance and Banking Research*, 1(1), 13-24.
- Berger, A.N., & Udell, G.F. (2005). *A More Complete Conceptual Framework for Financing of Small and Medium Enterprises*, World Bank Policy Research Working Paper 3795. Retrieved from ideas.repec.org.
- Chandraiah, M., & Vani, R. (2014). The Prospects and Problems of MSMEs Sector in India – An Analytical Study. *International Journal of Business and Management Invention*, 3(8), 27-40.
- Chawla, D., & Sondhi, N. (2011). *Research Methodology: Concepts and Cases*. New Delhi; India: Vikas Publishers.
- Ekpenyong, D.B., & Nyong, M.O. (1992). *Small and Medium Scale Enterprises in Nigeria- Characteristics, Problems and Sources of Finance*. Research Paper-16, African Economic Research Consortium.
- Field, A. (2000). *Discovering Statistics Using SPSS for Windows*. London: Sage Publication.
- Gaur, A., & Gaur, S. (2009). *Statistical Methods for Practice and Research*. New Delhi; India: Sage Publications.
- Gichuki, J.A., Njeru, A., & Tirimba, O.I. (2014). Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in Kangemi Harambee Market in Nairobi City County, Kenya. *International Journal of Scientific and Research Publications*, 4(12), 10-25.
- Hossain, S., & Uddin, M.A. (2006). Problems in Financing and Managing Small Scale Enterprises in Bangladesh: An Empirical Study on Some Rural Areas of Chittagong and Cox's Bazar. *The Social Sciences*, 1(1), 22-28.
- Hua, L. (2009). Study on Relationship Lending of Small and Medium Enterprises. Retrieved from www.accountant.org.cn/doc/acc200901/ac20090108.pdf.
- Imafidon, K., & Itoya, J. (2014). An Analysis of the Contribution of Commercial Banks to Small Scale Enterprises on the Growth of the Nigeria Economy. *International Journal of Business and Social Science*, 5(9), 256-262.
- Kimutai, C.J., & Ambrose, J. (2013). Factors Influencing Credit Rationing by Commercial Banks in Kenya. *International Journal of Humanities and Social Science*, 3(20), 244-251.
- Kulkarni, S.S. (2007). *Strengthening of Credit Flow to Small Scale Sector in India- New Approaches* (Doctoral Dissertation, University of Pune, Pune). Retrieved from <http://hdl.handle.net/10603/3808>.
- Kumar, R. (1999). *Financing Practices in Small Scale Industries: A Study of Textile Industry of Punjab* (Doctoral Dissertation, Guru Nanak Dev University, Amritsar).
- Mairura, C.J., Namusonge, G.S., & Karanja, K. (2013). The Role of Financial Intermediation in the Growth of Small and Medium Manufacturing Enterprises in Kenya: A Survey of Small and Medium Enterprises in Nairobi. *International Journal of Advanced Research in Management and Social Sciences*, 2(5), 111-120.
- Malhotra, N.K., & Dash, S. (2011). *Marketing Research: An Applied Orientation*. India: Pearson Education.

- Messah, O.B., & Wangai, P.N. (2011). Factors that Influence the Demand for Credit Among Small Scale Investors: A Case Study of Meru Central District, Kenya. *Research Journal of Finance and Accounting*, 2(2), 1-10.
- Mishra, S.K., & Brahme, R. (2011). Study of Strategic Financial Management and Growth in Micro and Small Scale Enterprises in Chhattisgarh. *The Indian Journal of Commerce*, 64(1), 70-84.
- Mukiri, W.G. (2008). Determinants of Access to Bank Credit by Micro and Small Enterprises in Kenya. Retrieved from www.africa-platform.org.
- Nageswara Rao, S. (2012). *A Study on Problems and Prospects of Micro and Small Scale Enterprises with Special Reference to Krishna District Andhra Pradesh* (Doctoral Dissertation, Acharaya Nagarjuna University, Andhra Pradesh). Retrieved from <http://hdl.handle.net/10603/123407>.
- Nishanth, P., & Zakkariya, K.A. (2014). Barriers Faced by Micro, Small and Medium Enterprises in Raising Finance. *Abhinav National Monthly Referred Journal of Research in Commerce and Management*, 3(5), 39-45.
- OECD (2006). Financing SMEs and Entrepreneurs. Retrieved from www.oecd.org/dataoecd/53/27/37704/20.pdf.
- Osotimehin, K.O., Charles, J., Babatunde, A., & Olajide, O.T. (2012). An Evaluation of the Challenges and Prospects of Micro and Small Scale Enterprises Development in Nigeria. *American International Journal of Contemporary Research*, 2(4), 174-184.
- Padachi, K., Howorth, C., & Narsimhan, M.S. (2012). Working Capital Financing Preferences: The Case of Mauritian Manufacturing Small and Medium Sized Enterprises. *Asian Academy of Management Journal of Accounting and Finance*, 8(1), 125-157.
- Pandula, G. (2011). An Empirical Investigation of Small and Medium Enterprises, Access to Bank Finance: The Case of an Emerging Economy. *Proceeding of ASBBS*, 18(1), 255-273.
- Parikh, S.M. (1977). *How to Finance Small Business Enterprises*. Meerut: FG Wasani, The Macmillan Co. of India.
- Patankar, R. (2008). SSIs in India, Key Challenges and Credit Ratings. *The Chartered Accountant*, 1912-1916.
- Quader, S.M., & Abdullah, M.N. (2009). Constraints to SMEs: A Rotated Factor Analysis Approach. *A Research Journal of South Asian Studies*, 24(2), 334-350.
- Ramanaiah, V. (2011). The Performance of SSIs in India.
- Selvaraj, N., & Balajikumar, P. (2015). Attitude of Owners of Small Scale Industries towards the Lending Services of the State Bank of India in Tamilnadu- A Study, Sociology and Criminology. Retrieved from www.esciencecentral.org/journals.
- Singh, J., & Singh, D. (2014). Problems Related to the Financing of Small Firms in India. *International Journal of Innovative Research and Development*, 3(1), 317-321.
- Singh, S., & Janor, H. (2013). Determinants of SMEs Financing Pattern in India- A Rotated Factor Analysis Approach. *International Journal of Economics and management*, 7(2), 314-330.
- Torre, A., Persia, M.S., & Schmukler, S.L. (2010). Bank Involvement with SMEs: Beyond Relationship Lending. *Journal of Banking and Finance*, 34, 2280-2293.
- Uremado, S.O., Ani, O.I., & Odili, O. (2014). Banking System Credit to Small and Medium Scale Enterprises and Economic Growth in Nigeria: A Co-integration Approach. *IOSR Journal of Economics and Finance*, 5(6), 44-51.
- Veerappan Poovendhiran, N.V., & Sathishkumar, D. (2016). Impact of Industrial Policy on Small Scale Industries: An Exploratory Study on Indian SSIs. *International Journal of Advanced Engineering Technology*, 7(2), 646-654.

- Vora, A. (2008). *Impact of Selected Banking System on Small Scale Industries with Special Reference to Gujarat*. (Doctoral Dissertation, Saurashtra University, Rajkot). Retrieved from <http://etheses.saurashtrauniversity.edu/650/>
- Yadav, V.K. (2013). Sources of Finance in Small Scale Industries. *International Journal of Economics and Management Research*, 3(6), 1-10.
-

Authors' Profile

Mandeep Kaur is working as a Professor in Department of Commerce, Guru Nanak Dev University, Amritsar, Punjab, India. She has a teaching experience of 21 years. Her research interests are Research Methodology, Marketing and Finance. She has around 50+ publications.

Ubique is working as an Assistant Professor in PG Department of Commerce and Business Administration at Lyallpur Khalsa College, Jalandhar, India. She has around 17 years of teaching experience. Her area of interest is Finance. She has 3 publications.
