



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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- Kelkar V. (2009): Towards a New Natural Gas Policy, Economic and Political Weekly, Viewed on February 17, 2011 <http://epw.in/epw/user/viewabstract.jsp>

FACTORS IN FACILITATING THE PROCESS OF OBTAINING FUNDS FOR SMES: AN EMPIRICAL STUDY ON VISAKHAPATNAM DISTRICT

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ABSTRACT

The SMEs are facing are playing a vital in the economic development of the country. They are contributing highest share in the form of exports and employment. But, they are facing many problems. Main problem of them is finance. Entrepreneurs have no fully resources for starting a venture or to diversify, expanding and modernisation of the existing one. They have to depend on financial institutions or money lenders for getting finance. Money lenders issue credit at high interest rates. Entrepreneurs will have to depend on financial institutions for getting finance at reasonable interest rates. The financial institutions are considering some factors for financing the SMEs. The factors plays significant role in getting finance from the institutions. These factors are useful to the bankers to estimate the financial capacity of the SMEs. Based on the factors they are giving finance to the SMEs. The present study is an insight into the factors considered for the process of obtaining funds from the institutions.

KEYWORDS

Cronbach alpha, Factors for obtaining funds, Finance, Kolmogorov-Smirnov Test and SMEs

INTRODUCTION

With a share of 45 per cent in the country's industrial output, 40 per cent in exports, 17 per cent in the GDP (as in 2009), a total workforce of about 60 million people, with 1.3 million being added every year, small and medium enterprises (SMEs) are contributing in a big way to economic development of the country¹. But, the SMEs have their own set of problems. Every enterprise, whether big or small, need finance to carry on its operations. In SMEs the vital need for finance is realized very badly due to its weak equity base. Due to limitation of own resources, SMEs generally depend on external sources for funds. Various financial institutions like commercial banks, state financial corporations and co-operative banks etc., are providing credit to the SME units by way of working capital finance and term loans.

NEED FOR THE STUDY

The SMEs are depending on external sources for finance. The external agencies are charging high interest rate. Usually, they have to depend on financial institution for getting loans at reasonable rates. But, the financial agencies are considering some factors for financing SMEs. Hence, it is relevant to study the factors considered by the financial institutions in extending credit to borrower units. The present paper is a vent in this direction. The study has focussed on Visakhapatnam area. This is second largest industrial district after Hyderabad.

SCOPE OF THE STUDY

Scope of the study is restricted to the following areas:

- The SME units which are registered in the period between 1991 and 2008.
- The SME Units which come under the new definition are taken for the study.

OBJECTIVE OF THE STUDY

- To know about the factors considered for obtaining finance from the financial institutions.

RESEARCH METHODOLOGY

In pursuance of the above mentioned objectives, the following methodology is adopted. The study is purely based on Primary data.

PRIMARY DATA

A perusal into records of the District Industries Centre (DIC), Visakhapatnam reveals that there are 246 registered SME units (which are satisfying the new definition of SMEs) from the period of 1991 to 2008. Out of 246, 33.33 per cent (82) have been taken as a sample size for the study. A stratified random sampling technique has been used in the selection of sample.

TOOLS AND TECHNIQUES

For the purpose of analysis and to facilitate interpretation Discriminant Analysis is used. PASW for Windows Version 18.0 used for the purpose of extensive analysis.

MEAN (\bar{X})

The mean value is obtained by adding together all the items and by dividing this total by the number of items.

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N} = \frac{\sum X}{N}$$

Where, \bar{X} = Arithmetic value

$\sum X$ = Sum of all the variables

N = Number of variables

RELIABILITY ANALYSIS

In classical test theory, reliability is defined mathematically as the ratio of the variation of the true score and the variation of the observed score. Or, equivalently, one minus the ratio of the variation of the error score and the variation of the observed score:

$$\rho_{xx'} = \frac{\sigma^2_T}{\sigma^2_X} = 1 - \frac{\sigma^2_E}{\sigma^2_X}$$

Where $\rho_{xx'}$ is the symbol for the reliability of the observed score, X ; σ^2_X , σ^2_T , and σ^2_E are the variances on the measured, true and error scores respectively. Unfortunately, there is no way to directly observe or calculate the true score, so a variety of methods are used to estimate the reliability of a test.

CRONBACH'S ALPHA

Cronbach's α is defined as

$$\alpha = \frac{N}{N-1} \left(1 - \frac{\sum_{i=1}^N \sigma_{Y_i}^2}{\sigma_X^2} \right)$$

Where N is the number of components (items or testlets), σ_X^2 is the variance of the observed total test scores for the current sample of persons, and $\sigma_{Y_i}^2$ is the variance of component i for the current sample of persons.

Alternatively, the standardized Cronbach's α can also be defined as

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$$

Where N is the number of components (items or testlets), \bar{v} equals the average variance for the current sample of persons and \bar{c} is the average of all covariances between the components across the current sample of persons.

MULTIPLE REGRESSION ANALYSIS

It is a technique of analyzing the data, which simultaneously investigate the effect of two or more independent variables on a dependent variable.

The multiple regression takes the form of

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + \dots + b_k X_k$$

Where Y is the dependent variable, which is to be predicted; $X_1, X_2, X_3, X_4, \dots, X_k$ are the K known variables on which the predictions are to be based and a, $b_1, b_2, b_3, b_4, \dots, b_k$ are parameters, the values of which are to be determined by the method of least squares.

The coefficient of multiple determination (R^2) for the multiple regression can be calculated by the following formula.

$$R^2 = \frac{\sum (Y_i - \bar{Y})^2 - \sum (Y_i - \hat{Y})^2}{\sum (Y_i - \bar{Y})^2}$$

Where R^2 is coefficient of determination

Y_i = Value of i^{th} item in Y series.

\bar{Y} = mean of the Y series.

\hat{Y} = Computed value of i^{th} item in Y series on the basis of regression.

To overcome the problem of tedious calculations involved in multiple regression analysis, computers which support Statistical Packages such as SPSS, STATISTICA, Stat soft etc are generally used. The use of computers facilitate enormously as several independent variables can be handled. We can ascertain whether adding another independent variable will improve results or not. We can see the magnitude of R^2 , which indicates what proportion of the variation in the dependent variable is explained by the independent variables.

CO-EFFICIENT OF VARIATION (C.V)

Co-efficient of variation is a situation where we want to compare the variability of two or more than two series. A high variation indicates less consistency and less variation indicates more uniformity.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

σ = Standard Deviations of the Variables

\bar{X} = Mean Value of Variables

CO-EFFICIENT OF CORRELATION

It is a statistical device, which helps us in analyzing the co-variation between two or more series of variables. The co-efficient of correlation is denoted by the symbol 'r', The formula for computing 'r' which was practiced by "Karl Pearson" is:

$$r = \frac{\sum xy}{N \sigma_x \sigma_y} \quad \text{Where } x = (X - \bar{X}),$$

$$y = (Y - \bar{Y})$$

σ_x = Standard Deviation of Series X

σ_y = Standard Deviation of Series Y

N = Number pairs or observations

r = The Correlation Co-efficiently.

The value of correlation co-efficient, which is obtained by the above formula, shall always lie between ± 1 , If $r=+1$ it means there is a perfect positive correlation between the variables. When $r = -1$, there is a perfect negative correlation between the variables. When $r = 0$ it means there is no relationship between the two variables.

t-TEST OF A CORRELATION CO-EFFICIENT

It is assumed that the two series of variables originate from a bivariate normal distribution, and that the relationship is linear. To test the null hypothesis that the population value of 'r' is zero, the test static.

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Is calculated and this follows students' t - distribution with (n-2) degrees of freedom. The test will normally two-tailed but in certain cases would be one tailed.

HYPOTHESIS

Factors facilitating the process of obtaining funds from financial institution exert significant influence and are equal

TABLE-1: FACTORS FACILITATING THE PROCESS OF OBTAINING FUNDS

Sl.no.	Factors	SA (5)	A (4)	N (3)	DA (2)	SD (1)	Total	Mean
1	Revenue	9 (10.98)	31 (37.80)	19 (23.17)	15 (18.29)	8 (9.76)	82 (100.00)	3.2195122
2	Value of asset	12 (14.63)	24 (29.27)	16 (19.51)	17 (20.73)	13 (15.85)	82 (100.00)	3.0609756
3	No. of employees	7 (8.54)	31 (37.80)	24 (29.27)	15 (18.29)	5 (6.10)	82 (100.00)	3.2439024
4	Protected industries	5 (6.10)	35 (42.68)	17 (20.73)	16 (19.51)	9 (10.98)	82 (100.00)	3.1341463
5	Business connections	13 (15.85)	25 (30.49)	24 (29.27)	17 (20.73)	3 (3.66)	82 (100.00)	3.3414634
6	Political connections	11 (13.41)	24 (29.27)	23 (28.05)	23 (28.05)	1 (1.22)	82 (100.00)	3.2560976
7	Low current debt	3 (3.66)	17 (20.73)	26 (31.71)	27 (32.93)	9 (10.98)	82 (100.00)	2.7317073
8	Previous payment	14 (17.07)	31 (37.80)	18 (21.95)	17 (20.73)	2 (2.44)	82 (100.00)	3.4634146
9	Goodwill	8 (9.76)	23 (28.05)	23 (28.05)	23 (28.05)	5 (6.10)	82 (100.00)	3.0731707
10	Market share	16 (19.51)	28 (34.15)	16 (19.51)	16 (19.51)	6 (7.32)	82 (100.00)	3.3902439
11	Business projections	7 (8.54)	21 (25.61)	33 (40.24)	16 (19.51)	5 (6.10)	82 (100.00)	3.1097561

SA= Strongly Agree, A= Agree, N= Neutral, DA= Disagree, SD= Strongly Disagree

Note: Figures in brackets indicate percentage to total

Source: Survey²

TABLE-2: CRONBACH ALPHA

Cronbach alpha: .662252		
Standardized alpha: .605898		
Sl.no.	Particulars	Alpha
1	Revenues	0.666341
2	Value of asset	0.69736
3	No. of employees	0.651736
4	Protected industries	0.601304
5	Business connections	0.658311
6	Political connections	0.601465
7	low current debt	0.683452
8	Previous payment	0.648159
9	Goodwill	0.638416
10	Market share	0.613365
11	business projections	0.616048
12	Acceptance or Rejection	0.687954

TABLE-3: ONE-SAMPLE KOLMOGOROV-SMIRNOV TEST

		Revenues	Value of asset	No. of employees	Protected industries	Business connections	Political connections	low current debt	Previous payment	Goodwill	Market share	business projections	Acceptance or Rejection
N		82	82	82	82	82	82	82	82	82	82	82	82
Normal Parameters	Mean	3.1585	3.0244	3.9390	3.0854	3.3293	3.2439	2.8049	3.4512	3.0854	3.6220	3.2439	.7805
	Std. Deviation	1.10520	1.27633	.63533	1.14613	1.08928	1.03710	1.01153	1.06750	1.15685	1.07313	1.01301	.41646
Most Extreme Differences	Absolute	.277	.217	.331	.263	.182	.194	.211	.245	.180	.321	.199	.481
	Positive	.174	.155	.303	.164	.168	.177	.180	.145	.180	.204	.168	.299
	Negative	-.277	-.217	-.331	-.263	-.182	-.194	-.211	-.245	-.139	-.321	-.199	-.481
Kolmogorov-Smirnov Z		2.506	1.962	2.997	2.383	1.650	1.755	1.907	2.220	1.626	2.903	1.803	4.359
Asymp. Sig. (2-tailed)		.000	.001	.000	.000	.009	.004	.001	.000	.010	.000	.003	.000

a Test distribution is Normal.

b Calculated from data.

TABLE-4: MODEL SUMMARY

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	F Change	df1	df2	Sig. F Change	Durbin-Watson
Model					R Square Change					
1	.260	.68	-.79	.43257	.068	.462	11	70	.920	2.311

a Predictors: (Constant), Business projections, Business connections, Previous payment, Low Current debt, Goodwill, Revenues, No. of employees, Market share, Political connections, Protected industries, Value of assets.

b Dependent Variable: Acceptance or rejection

TABLE-5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.951	11	.086	.462	.020
	Residual	13.098	70	.187		
	Total	14.049	81			

a Predictors: (Constant), Business projections, Business connections, Previous payment, Low Current debt, Goodwill, Revenues, No. of employees, Market share, Political connections, Protected industries, Value of assets.

b Dependent Variable: Acceptance or rejection

TABLE-6: COEFFICIENTS

Model	Particulars	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.482406	0.436261	0.001123	3.397977	-0.12101		
	Revenues	-0.0456	0.046255	0.327628	-0.9858	0.019311	0.88395	1.131285
	Value of asset	0.006301	0.04311	0.884212	0.146164	-0.09859	0.763029	1.310566
	No. of employees	-0.06463	0.079893	0.421309	-0.80891	0.01244	0.896628	1.115289
	Protected industries	0.00452	0.047572	0.924568	0.095023	0.053564	0.777057	1.286907
	Business connections	0.020479	0.048712	0.67547	0.420416	-0.14781	0.820498	1.218772
	Political connections	-0.05935	0.051254	0.250779	-1.15805	-0.04767	0.817577	1.223127
	Low current debt	-0.01962	0.049143	0.690856	-0.39934	-0.11044	0.934868	1.069669
	Previous payment	-0.04309	0.049346	0.385556	-0.87317	-0.0554	0.832501	1.201199
	Goodwill	-0.01995	0.04349	0.647929	-0.45862	-0.00427	0.912641	1.095721
	Market share	-0.00166	0.048324	0.972738	-0.0343	0.044475	0.858995	1.164151
	Business projections	0.018284	0.051586	0.724072	0.354444		0.845934	1.182125
a	Dependent Variable: Acceptance or rejection							

TABLE-7: COLLINEARITY DIAGNOSTICS

Model	Dimension	Eigen value	Condition Index	Variance Proportions (Constant)	Revenues	Value of asset	No. of employees	Protected industries	Business connections	Political connections	low current debt	Previous payment	Goodwill	Market share	business projections
1	1	11.07800	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	0.18200	7.803	.00	.06	.21	.00	.06	.08	.02	.06	.01	.00	.00	.00
	3	0.13000	9.248	.00	.00	.04	.00	.00	.03	.00	.31	.05	.30	.02	.02
	4	0.11700	9.731	.00	.12	.02	.00	.20	.02	.01	.07	.02	.34	.01	.04
	5	0.11100	9.993	.00	.31	.23	.00	.13	.00	.00	.12	.07	.00	.01	.00
	6	0.08761	11.245	.00	.05	.10	.00	.01	.01	.00	.17	.07	.00	.16	.35
	7	0.07375	12.256	.00	.04	.14	.00	.19	.04	.46	.01	.08	.14	.02	.04
	8	0.06917	12.655	.00	.04	.07	.00	.01	.47	.10	.01	.12	.06	.25	.01
	9	0.06072	13.507	.00	.06	.06	.02	.19	.05	.29	.05	.32	.13	.02	.10
	10	0.05000	14.884	.00	.26	.04	.00	.18	.11	.09	.02	.00	.02	.47	.38
	11	0.03220	18.548	.05	.01	.06	.40	.03	.19	.00	.18	.20	.00	.03	.04
	12	0.00939	24.346	.94	.04	.01	.57	.01	.00	.03	.01	.05	.01	.03	.03

a Dependent Variable: Acceptance or rejection

FACTORS FACILITATING THE PROCESS OF OBTAINING FUNDS

Finance is one of the basic requirements for any SME units. It is the catalytic agent for any business. Financial inadequacy is observed to be one of the most important causes leading to ripple effect of sickness of SMEs. In order to obtain more and more finance & concessions, the owners of the SME units runs from one agency to another and consequently, cannot concentrate on the industry. These individuals concentrate on various formalities and factors to acquire finance from financial institutions.

For the purpose of study, factors such as revenues & firm is profitable, value of assets, higher number of employees, firms operating in "protected" industries, business connections between firm and government officials, political or personal connections between firm and government officials, low current debt, good previous payment record, goodwill and reputation in the society, market share & acceptability of product by customers, business projections.

Table 1 shows the factors facilitating the process of obtaining funds. It can be observed that, 37.80 per cent agreed and 10.98 per cent strongly agreed that revenues are considered as factor for facilitating the process of obtaining funds. Value of the assets are considered as a factor for facilitating funds is agreed by 29.27 per cent and strongly agreed by 14.63 per cent. The number of employees working in the SMEs is considered as a factor is agreed by 37.80 per cent. Protected industry is a factor for obtaining funds is strengthened by 42.68 per cent agreed SMEs. 30.49 per cent agreed and 15.85 per cent strongly agreed business connections are facilitated funds. Political connections influenced in obtaining funds from various sources is agreed by 29.27 per cent and strongly agreed by 13.41 per cent. Low current debt have an effect in obtaining funds is disagreed by 32.93 per cent and strongly disagreed by 10.98 per cent SMEs. Previous payment track record has a influenced factor in obtaining funds is agreed by 37.80 per cent and strongly agreed by 17.07 per cent. Goodwill of the enterprise influences in obtaining funds is agreed by 28.05 per cent and strongly agreed by 9.76 per cent. 34.15 per cent agreed and 19.51 per cent strongly agreed that, market share of the enterprises has influenced in obtaining funds. Business projections of the enterprises has influenced in obtaining funds is agreed by 25.61 per cent and strongly agreed by 8.54 per cent. Data collected from the survey has been analysed using the statistical tools on SPSS 11.0 for assessment of reliability of dimension and testing the hypothesis.

RELIABILITY ANALYSIS

The reliability analysis was assessed by computing the coefficient of cronbach alpha. Cronbach alpha measures the internal consistency of the items. Results of the reliability analysis are shown in the table 2. If the coefficient alpha is above 0.60, it is considered to be reliable. All alpha coefficient ranges from 0.60 to 0.69, thereby, indicating good consistency among the items within each dimension and scale.

Correlation and multiple regression have been done to test the hypothesis. Prior to applying the regression analysis, to test the normality of the residuals, the Kolmogorov-smirnov test has been used. The kolmogorov-smirnov test in the table 3 provides the evidence that the residual is normally distributed and the regression analysis can be executed.

In order to check the correlation between the residuals, Durbin-Watson test statistic was computed, which is shown in table 4. The test statistic can vary between 0 and 4. Value of Durbin-Watson test close to 2 shows that the residual are independent that is, uncorrelated, fulfilling the assumption for applying the regression model.

The total variance explained by the variables is 79 per cent (Adjusted R^2). From the table 5, it is observed that, variables considered for the study significantly influences the process of selecting financial institutions. The regression was found to be significant with ANOVA ($f=0.462$, $p=0.020$) which indicates that all the independent variables together have a significant influence. In order to ascertain whether there could be any multi collinearity between the independent variables, collinearity statistics from the table 7 is considered. The limits for multi collinearity are that the condition index should be less than 30, tolerance should be between 0 & 1 and variance initiation factor values, between 1 and 2. From the table, VIF values lie in between the limit, there is no multi collinearity amongst the independent variables.

SUMMARY

The SMEs concentrate on various formalities and factors to acquire finance from financial institutions. These factors such as revenues & firm is profitable, value of assets, higher number of employees, firms operating in "protected" industries, business connections between firm and government officials, political or personal connections between firm and government officials, low current debt, good previous payment record, goodwill and reputation in the society, market share & acceptability of product by customers, business projections. The regression was found to be significant with ANOVA ($f=0.462$, $p=0.020$) which indicates that all the independent variables together have a significant influence. In order to ascertain whether there could be any multi collinearity between the independent variables, collinearity statistics. The limits for multi collinearity are that the condition index should be less than 30, tolerance should be between 0 & 1 and variance initiation factor values, between 1 and 2. From the table, VIF values lie in between the limit, there is no multi collinearity amongst the independent variables.

SUGGESTIONS

- MSMEs should improve their book keeping and record management to enhance the confidence of the financial intermediaries.
- The SMEs suffer from lack of reliable and stable economic infrastructure, reduced credit inflow and technology obsolescence thereby leading to inferior quality and low productivity. In the light of global competition, technology development innovations should be made, financial infrastructure should be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand for the Small Scale Industries' survival and growth.
- Availability of adequate finance at reasonable rates and right time would mitigate many of their ailments. Improving the production technology to world class level, catering to global quality standards and updating their management and marketing techniques will be taken care of with adequate supply of finance and ancillary services through the existing specialised agencies. A level playing field is to be ensured for them by these agencies. Multiplicity of institutions, schemes and programmes may be avoided. All the assistance and monitoring should go through a single window for better implementation and follow up.

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Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

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Co-ordinator