

Assessment of Satisfaction of MSME at the Pre-Stage of Loan Sanction by Public Sector Banks in Odisha, India

*Niladri Bihari Dash, **Dr. Smruti Ranjan Das, ***Dr. Suman Kalyan Chaudhury, ****Dr. Sukanta Sarkar

*Research Scholar, School of Economics and Commerce, Kalinga Institute Industrial Technology (KIIT) Deemed to be University, Bhubaneswar-751024, Odisha, India. E-mail id: 2181199@kiit.ac.in

** (Correspondent Author), Assistant Professor, School of Economics and Commerce, Kalinga Institute of Industrial Technology (KIIT) Deemed to be University, Bhubaneswar-751024, Odisha, India. E-mail id: smrutiranjana.dasfcm@kiit.ac.in

***Faculty Member, P.G.Dept. of Business Administration, Berhampur University, Bhanja Bihar-760007, Odisha, India, Email Id: sumankchaudhury72@gmail.com.

****Associate Professor, Department of Economics, Gambella University, Gambella- 126, Ethiopia, Email Id: sukantaeco@gmail.com.

ARTICLE INFO

ABSTRACT

Received: 17 Oct 2024

Revised: 15 Dec 2024

Accepted: 31 Dec 2024

Micro, Small, and Medium Enterprises (MSMEs) are integral to the economic framework, significantly contributing to job creation, promoting equitable income distribution, and mitigating regional economic disparities. The success of MSME entrepreneurs is heavily reliant on the support they receive from financial institutions, particularly in terms of credit access and banking services. This research aims to investigate the determinants of satisfaction among MSME borrowers and assess their overall contentment with public sector banking services. Recommendations are provided to enhance borrower satisfaction, thereby facilitating accelerated growth within the MSME sector. The study employs rigorous scientific methodologies to analyze MSME's satisfaction with commercial banks, revealing that the relationships between various factors and customer satisfaction regarding bank policies and procedures are predominantly linear, with high correlation coefficients indicating a strong connection between these elements.

Keywords: MSME, Borrowers, Public sector Bank, Customer Satisfaction.

INTRODUCTION

India's Micro, Small, and Medium Enterprises (MSME) sector is crucial to the nation's economic and social advancement by promoting entrepreneurship and creating substantial employment opportunities with relatively low capital investment, second only to the agricultural sector. MSMEs serve as vital engines of growth within the Indian economy, accounting for approximately 30% of the country's Gross Domestic Product (GDP). Often referred to as "the backbone of the Indian Economy," they act as a catalyst for national development (Singh et al., 2012; Gade, 2018). Furthermore, in the realm of exports, MSMEs are essential supply chain components, contributing around 40% to the total export figures. (Ref: **MSME** Annual Report 2020-21).

Micro, small, and Medium Enterprises (MSMEs) serve as essential support units to larger industries, thereby playing a crucial role in fostering inclusive industrial growth within that nation. This sector is expanding its reach across various economic domains, generating various products and services that cater to domestic and international market needs. Furthermore, MSMEs are instrumental in generating substantial employment opportunities while requiring significantly lower capital investment compared to their larger counterparts.

The entrepreneurs operating in the micro, small, and medium enterprises (MSME) sector encounter a variety of significant obstacles, including securing sufficient financial resources, effectively marketing their products, modernizing technology, acquiring entrepreneurial skills, navigating the complexities of obtaining diverse government approvals, and competing against larger industrial entities. One of the most pressing issues for these entrepreneurs is the challenge of obtaining timely and adequate financing. Current estimates suggest that the total credit shortfall within the MSME sector ranges between Rs.20 to 25 trillion. (*Reserve Bank of India, 2019*)

Given that banks serve as India's primary financing source, the Reserve Banks of India has designated micro and small enterprises as a priority sector for lending. Furthermore, banks are encouraged to attain a year-on-year increase of 20% in credit extended to these enterprises, alongside a 10% annual growth in the number of microenterprise accounts. In light of these policies, this research investigates the satisfaction level of micro, small, and medium enterprises (MSMEs) and assesses entrepreneurs' awareness of these initiatives.

During the initial interviews conducted with entrepreneurs for this research, it became evident that Micro, small and medium enterprises (MSMEs) possess varying financial needs at distinct phases of their development. This observation prompted the authors to gain a deeper insight into the diverse financing options utilized by MSMEs throughout their life cycle and examine the obstacles they face in accessing these financial resources. Given the absence of prior studies addressing the financial requirements of MSMEs at various stages of their operation, this

research represents a pioneering effort to explore these critical dimensions. Consequently, the paper emphasizes the financing sources from private commercial banks by MSMEs across different life cycle stages, alongside the awareness and utilization of various programs offered by the government.

2. REVIEW OF LITERATURE

The primary financial resources utilized by micro, small, and medium enterprises (MSMEs) include bank loans, financing from non-banking financial companies (NBFCs), venture capital, and support from microfinance institutions. Also, MSMEs often rely on loans from family members, relatives, and friends, as well as equity financing and their financial reserves (Mallick et al. 2010; International Finance Corporation 2012; ADB 2014).

The view of small and medium enterprises (SMEs) as high-risk and commercially unfeasible options for lending has led to a limited number of these businesses obtaining formal financial support (Ambrose 2012). Prasad (2006) pointed out that Indian banks, in particular, exhibit reluctance in financing small enterprises, attributing this hesitance to factors such as the lack of collateral, elevated levels of nonperforming assets, significant transaction costs, and challenges in assessing the creditworthiness of potential borrowers.

Grant Thornton India and FICCI (2011) determined that micro, small, and medium enterprises (MSMEs) face elevated capital costs, highlighting the necessity for streamlining the financing process by minimizing both the time and documentation involved. Lahiri (2012) emphasized that as the demand for both short-term and long-term capital among MSMEs continues to grow, banks must adopt more innovative lending practices to adequately address the financial requirements of these enterprises.

Lahiri (2018) found that Micro, Small, and Medium Enterprises (MSMEs), particularly firms, play a significant role in employment generation, production, export, and resource mobilization; however, they face considerable challenges in accessing adequate credit from the banking sector. The unique operational characteristics of MSMEs, coupled with their difficulties in providing collateral. Lack of financial discipline, poor repayment records, and the overly cautious stance of banks contribute to the limited availability of credit. The findings indicate a credit gap, which reflects the disparity between the demand for the supply of credit and a volatile growth rate in bank credit for MSMEs. To effectively address the credit requirements of MSMEs, a strategic combination of traditional banking practices and alternative financing options, such as venture capital, microfinance, and factoring, is recommended.

The International Finance Corporation (2012) estimates that the financing available to the micro, small, and medium enterprises (MSME) sector amounts to ₹32.5 trillion. This figure includes inputs from various sources, such as informal finance, formal finance, and self-financing. Notably, informal finance and self-financing contribute ₹25.5 trillion, with informal finance accounting for ₹24.4 trillion. This indicates that a substantial 78% of the financial resources utilized by MSMEs are sourced from informal channels and self-financing. In contrast, formal financial institutions, including banks and non-banking financial companies (NBFCs), supply the remaining 22%, totaling ₹6.9 trillion, with banks being the predominant providers, contributing 91.8% of this amount.

Yadav (2012) indicates in his research that small and medium-sized enterprises (SMEs) predominantly favor bank financing as their primary source of funding, with a significant preference rate of 94 percent, followed closely by retained earnings at 81 percent. Additionally, the study revealed that 79 percent of SMEs experienced reluctance from bankers to extend loans, while only 21 percent of bankers displayed a neutral stance towards assisting these firms.

According to a study conducted by Grant Thornton India in collaboration with FICCI in 2011, it was determined that micro, small, and medium enterprises (MSMEs) face elevated capital costs, highlighting the necessity for streamlining the financing process by minimizing both the time and documentation involved. Furthermore, Lahiri (2012) emphasized that as the demand for both short-term and long-term capital among MSMEs continues to grow, it is imperative for banks to adopt more innovative lending practices to adequately address the financial requirements of these enterprises.

The analysis of data gathered from medium-sized enterprises in France reveals that these organizations possess greater leverage compared to their smaller counterparts. Research findings suggest that small and medium-sized enterprises (SMEs) exhibiting significant growth potential tend to incur higher levels of debt, especially in the form of long-term liabilities (Benkraiem and Gurau, 2013). Furthermore, it has been noted that the frameworks and effectiveness of formal lending institutions play a crucial role in influencing the performance of micro, small, and medium-sized enterprises (MSMEs). Nations with a robust MSME sector are typically associated with well-organized lending institutions.

Singh (2006) conducted a study in Manipur, revealing that banks and financial institutions have often provided funding to small-scale industries (SSIs) without due diligence, driven by either external pressures or excessive enthusiasm to meet their lending targets. This practice frequently results in the absence of comprehensive feasibility reports from many units, and when such reports are created, they tend to present an overly optimistic view to appease the requirements of lending bodies. In a subsequent analysis, Kumar, Batra, and Sharma (2009) examined reports from the Ministry of MSMEs and concluded that the limited financial capacity, coupled with vague business plans

and inadequate accounting statements, hampers the ability to assess the creditworthiness of micro, small and medium enterprises (MSEs). Consequently, investors and financial institutions often categorize these enterprises as high-risk borrowers.

The Reserve Bank of India(2005) highlighted various challenges small and medium enterprises face in securing financing. These challenges include a lack of financial resources due to insufficient documentation and informal operations, fragmented input markets, limited access to interstate and international markets, a lack of advanced technology and product innovations, and delays in payment settlements by larger buyers. These factors collectively contribute to the financial difficulties faced by SMEs.

RESULTS AND DISCUSSIONS:

The demographic profile of primary data on respondents of the sample MSMEs of Odisha availing credit facilities from public sector banks has been presented below:

Table-1: Distribution of sample MSMEs availing credit facilities from public sector banks in Odisha.

Demographic Parameters		N	%
Age Groups (Years)	Below 30	41	19.9%
	30-55	91	44.2%
	Above 55	74	35.9%
Education Levels	Higher Secondary	63	30.6%
	Graduation	101	49.0%
	PG or Above	42	20.4%
Credit Limits (Rs.)	Below 20 Lakh	116	56.3%
	20-100 Lakh	57	27.7%
	Above 100 Lakh	33	16.0%

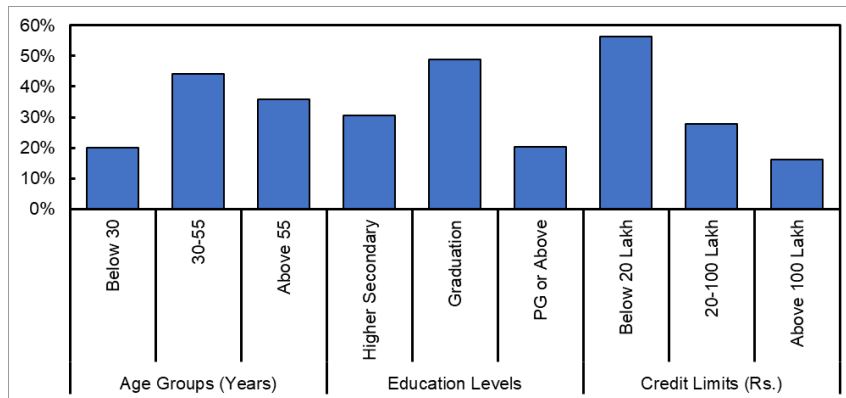


Figure-1: Distribution of sample MSMEs availing credit facilities from public sector banks in Odisha.

The Table-1 and Figure-1 provide the demographic distribution of the sample with a clear view of financial profiles in the form of credit limits for Micro, Small, and Medium Enterprises (MSMEs) in Odisha availing credit facilities from public sector banks. 41 MSMEs (19.9%) belong to owners younger than 30, and the majority, 91 MSMEs (44.2%), fall in this age bracket, and 74 MSMEs (35.9%) are owned by individuals older than 55. Likewise, 63 owners (30.6%) have education up to a higher secondary level, and a significant proportion, 101 owners (49.0%), are graduates, whereas 42 owners (20.4%) have completed post-graduation or higher studies. Further, a majority, 116 MSMEs (56.3%), access credit facilities under ₹20 lakh, and 57 MSMEs (27.7%) utilize credit within this range besides 33 MSMEs (16.0%) avail credit exceeding ₹100 lakh.

Table-2: Mean, SD, and F-values of satisfaction levels of MSMEs across age groups for various determinants of pre-stage loan sanction by public sector banks in Odisha.

	Age Groups (Years)	N	Mean	Std. Dev.	F-value
Timeliness	Below 30	41	2.29	0.76	2.616 ^{NS}
	30 - 55	91	2.32	0.74	
	Above 55	74	2.39	0.81	
	Total	206	2.34	0.77	
Process	Below 30	41	2.29	0.55	1.429 ^{NS}
	30 - 55	91	2.26	0.56	
	Above 55	74	2.32	0.72	
	Total	206	2.29	0.61	
Services	Below 30	41	2.67	0.52	2.588 ^{NS}
	30 - 55	91	2.69	0.68	
	Above 55	74	2.76	0.82	
	Total	206	2.71	0.67	
Reliability	Below 30	41	4.56	0.92	1.683 ^{NS}
	30 - 55	91	4.61	0.87	
	Above 55	74	4.67	0.86	
	Total	206	4.62	0.88	
Charges	Below 30	41	4.51	0.79	2.489 ^{NS}
	30 - 55	91	4.62	0.94	
	Above 55	74	4.74	0.93	
	Total	206	4.64	0.89	
Overall Satisfaction	Below 30	41	3.26	0.71	1.409 ^{NS}
	30 - 55	91	3.30	0.76	
	Above 55	74	3.38	0.83	
	Total	206	3.32	0.76	

N.B:- F-value in ANOVA Between Age Groups, NS – Not Significant at 5% level (P<0.05).

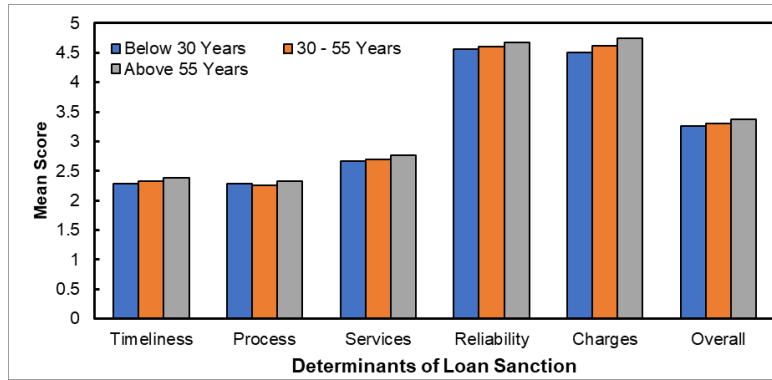


Figure-2: Mean satisfaction levels of MSMEs across age groups for various determinants of pre-stage loan sanction by public sector banks in Odisha.

The Table-2 and Figure-2 analyze variations in satisfaction levels of MSMEs across different age groups (Below 30 years, 30-55 years, and Above 55 years) of borrowers regarding various determinants of pre-stage loan sanctions by public sector banks in Odisha. The non-significant F-value (2.616) indicates similar timeliness satisfaction levels across age groups. The mean satisfaction scores range between 2.29 and 2.39, showing low satisfaction levels by all age groups. For process, no significant differences in satisfaction are evident because of the non-significant F-value (1.429). Mean scores range between 2.26 and 2.32, showing low satisfaction levels across all age groups. For services, the F-value (2.588) indicates no significant difference in the satisfaction levels of the respondents of various age groups. The mean satisfaction scores reflect neutrality, ranging from 2.67 to 2.76. In the case of reliability, the differences between the mean satisfaction levels of age groups are minimal and statistically similar because of the non-significant F-value (1.683). The mean scores are relatively high, ranging from 4.56 to 4.67, showing high satisfaction with reliability. For charges, a non-significant F-value (2.489) suggests similar consistent satisfaction levels across all age groups. The mean satisfaction score ranging from 4.51 to 4.74 shows high satisfaction scores across all groups. The overall satisfaction at the pre-approval stage shows similarity because of the non-significant F-value (1.409). The mean scores are moderate, between 3.26 and 3.38, showing neutrality by all age groups of borrowers. Consequently, the Null Hypothesis H_{10} , which states, "There is no significant variation in satisfaction levels of MSME borrowers with public sector banks across age groups concerning pre-loan sanction," is accepted.

Table-3: Mean, SD, and F-values of satisfaction levels of MSME borrowers across education levels for various determinants of pre-stage loan sanction by public sector banks in Odisha.

	Education Levels	N	Mean	Std. Dev.	F-value
Timeliness	Upto Higher Secondary	63	2.21	0.72	1.870 ^{NS}
	Graduation	101	2.33	0.78	
	Post-Graduation and Above	42	2.54	0.77	
	Total	206	2.34	0.76	
Process	Upto Higher Secondary	63	2.21	0.56	1.992 ^{NS}
	Graduation	101	2.27	0.65	
	Post-Graduation and Above	42	2.44	0.63	
	Total	206	2.29	0.61	
Services	Upto Higher Secondary	63	2.67	0.61	1.599 ^{NS}
	Graduation	101	2.74	0.71	
	Post-Graduation and Above	42	2.72	0.69	
	Total	206	2.71	0.67	

Reliability	Upto Higher Secondary	63	4.56	0.92	1.536 ^{NS}
	Graduation	101	4.64	0.85	
	Post-Graduation and Above	42	4.68	0.86	
	Total	206	4.62	0.88	
Charges	Upto Higher Secondary	63	4.54	0.94	1.567 ^{NS}
	Graduation	101	4.68	0.91	
	Post-Graduation and Above	42	4.71	0.82	
	Total	206	4.64	0.89	
Overall Satisfaction	Upto Higher Secondary	63	3.24	0.75	2.054 ^{NS}
	Graduation	101	3.33	0.78	
	Post-Graduation and Above	42	3.42	0.75	
	Total	206	3.34	0.76	

N.B:- F-value in ANOVA Between Education Levels, NS – Not Significant at 5% level ($P < 0.05$).

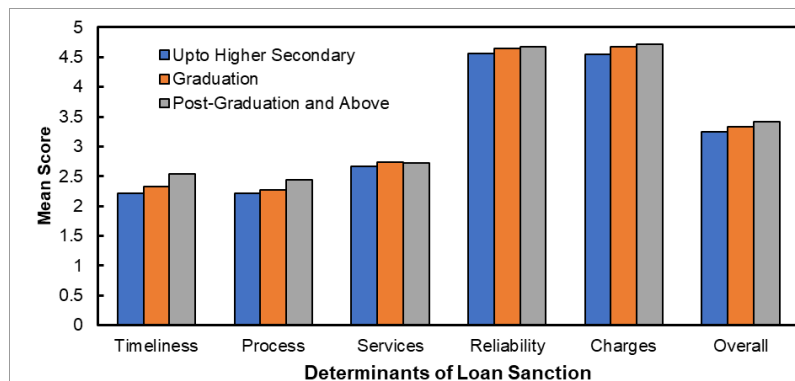


Figure-3: Mean satisfaction levels of MSME borrowers across education levels for various determinants of pre-stage loan sanction by public sector banks in Odisha.

The Table-3 and Figure-3 analyze variations in satisfaction levels of MSMEs across different education groups (to higher Secondary, Graduation, and Post-Graduation and Above) of borrowers regarding various determinants of pre-stage loan sanctions by public sector banks in Odisha. For timeliness, the non-significant F-value (1.870) indicates similar satisfaction levels across education groups of borrowers. The mean scores range between 2.21 (to higher secondary) and 2.54 (Post-graduation and above), showing low satisfaction in all education groups. In the process, the F-value (1.992) suggests no significant differences but rather similarities in mean scores on satisfaction by borrowers across education levels. The mean scores range from 2.21 to 2.44, showing low satisfaction scores by all groups. In the case of services, the differences in mean scores are not statistically significant but rather similar as envisaged from the F-value (1.599). The mean scores show neutrality as they range from 2.67 to 2.74. For reliability, the F-value (1.536) indicates no significant differences between mean satisfaction levels across education groups. The mean scores indicate high satisfaction and reliability across education groups as they range from 4.56 to 4.68. For charges, the non-significant F-value (1.567) indicates similar satisfaction levels from borrowers of all education groups. The mean scores range between 4.54 and 4.71, showing consistently high satisfaction irrespective of education. The overall satisfaction is uniform across education levels because of the non-significant F-value (2.054). The scores are moderate, ranging from 3.24 to 3.42. Consequently, the Null Hypothesis H_{20} , which states, "There is no significant variation in satisfaction levels of MSME borrowers with public sector banks across education levels concerning pre-loan sanction," is accepted.

Table-4: Mean, SD, and F-values of satisfaction levels of MSME borrowers across credit limits for various determinants of pre-stage loan sanction by public sector banks in Odisha.

	Credit Limits (Rs.)	N	Mean	Std. Dev.	F-value
Timeliness	Below 20 Lakh	116	2.26	0.78	1.617 ^{NS}
	20 – 100 Lakh	57	2.51	0.89	
	Above 100 Lakh	33	2.37	0.61	
	Total	206	2.34	0.76	
Process	Below 20 Lakh	116	2.29	0.58	1.543 ^{NS}
	20 – 100 Lakh	57	2.32	0.64	
	Above 100 Lakh	33	2.21	0.62	
	Total	206	2.29	0.61	
Services	Below 20 Lakh	116	2.64	0.71	1.932 ^{NS}
	20 – 100 Lakh	57	2.76	0.79	
	Above 100 Lakh	33	2.89	0.51	
	Total	206	2.71	0.67	
Reliability	Below 20 Lakh	116	4.58	0.81	1.944 ^{NS}
	20 – 100 Lakh	57	4.66	0.89	
	Above 100 Lakh	33	4.72	0.94	
	Total	206	4.62	0.88	
Charges	Below 20 Lakh	116	4.57	0.91	1.464 ^{NS}
	20 – 100 Lakh	57	4.71	0.93	
	Above 100 Lakh	33	4.74	0.84	
	Total	206	4.64	0.89	
Overall Satisfaction	Below 20 Lakh	116	3.27	0.76	2.460 ^{NS}
	20 – 100 Lakh	57	3.39	0.83	
	Above 100 Lakh	33	3.39	0.70	
	Total	206	3.32	0.76	

N.B:- F-value in ANOVA between Credit Limits, NS – Not Significant at 5% level ($P < 0.05$).

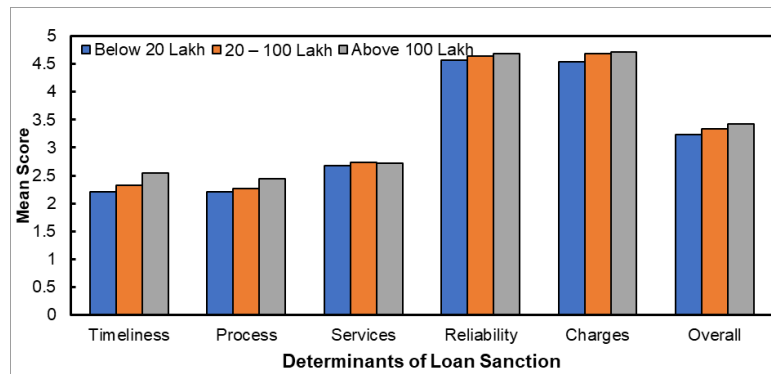


Figure-4: Mean satisfaction levels of MSME borrowers across credit limits for various determinants of pre-stage loan sanction by public sector banks in Odisha.

The Table-3 and Figure-3 analyze variations in satisfaction levels of MSMEs across different credit limit groups (Below 20 Lakh, 20-100 Lakh, and Above 100 Lakh) of borrowers regarding various determinants of pre-stage loan sanctions by public sector banks in Odisha. For timeliness, the mean scores range from 2.26 to 2.51, indicating low satisfaction levels. The F-value (1.617) indicates no significant differences between the group means; thereby they are similar. In the process, the mean scores range between 2.21 and 2.32, indicating slightly lower satisfaction. The non-significant F-value (1.543) shows no significant differences between the group means. In the case of service, the mean satisfaction scores are moderate, ranging from 2.64 to 2.89. The group means are similar as envisaged from the non-significant F-value (1.932). For reliability, the mean scores ranging from 4.58 to 4.72 show high satisfaction across all groups. These groups are similar in consideration of non-significant F-value (1.944). In the case of charges, the mean scores range between 4.57 and 4.74, reporting high satisfaction. The differences between group means are insignificant and may be treated as similar in view of the non-significant F-value (1.464). Lastly, the overall satisfaction scores are moderate, ranging from 3.27 to 3.39. The non-significant F-value (2.460) confirms the similarity of means. Consequently, the Null Hypothesis H_{30} , which states, "There is no significant variation in satisfaction levels of MSME borrowers with public sector banks across credit limits concerning pre-loan sanction," is accepted.

SUMMARY AND CONCLUSION:

Middle-aged entrepreneurs (30–55 years) dominate MSME credit, with nearly half being graduates, indicating education's role in credit access. Most MSMEs rely on loans under ₹20 lakh, reflecting modest financial needs. Satisfaction levels show no significant variation across age groups, education levels, or credit limits. Older MSMEs (above 55) and borrowers with higher education or larger credit limits report slightly higher satisfaction, particularly for Timeliness, Process, and Services. However, overall satisfaction remains moderate to low, except for Reliability and Charges, which consistently receive high ratings.

RECOMMENDATIONS:

Public sector banks should tailor loan processes to enhance satisfaction, particularly for less educated borrowers and those with smaller credit limits. Improving **Timeliness** and **Process efficiency** is crucial to better-serving MSMEs and boosting satisfaction levels.

REFERENCES

- [1] Ambrose, J. 2012. Venture Capital (VC): The All Important MSMEs Financing Strategy under Neglect in Kenya. *International Journal of Business and Social Science*. 3(21). pp. 234–240.
- [2] Asian Development Bank (ADB). 2014. ADB–OECD Study on Enhancing Financial Accessibility for MSMEs: Lessons from Recent Crises. Manila: Asian Development Bank.
- [3] Ashish Kumar, VikasBatra and S.K.Sharma (2009). Micro, Small and Medium Enterprises (MSMES) in India:Challenges and Issues in the Current Scenario.*Management Insight*.Vol. V (2).
- [4] Lahiri, R. 2012. Problems and Prospects for Micro, Small and Medium Enterprises (MSMEs) in India in the Era of Globalization. Paper presented at the International Conference on the Interplay of Economics, Politics, and Society for Inclusive Growth, 15–16 October, Thimphu, Bhutan.
- [5] Grant Thornton India and FICCI. 2011. Vision 2020: Implications for MSMEs. New Delhi.
- [6] International Finance Corporation (IFC). 2012. Micro, Small, and Medium Enterprise Finance in India. New Delhi: International Finance Corporation.
- [7] Lahiri,R.(2018) Bank Financing for MSMEs in India: Trends, Problems and Possibilities, Zenith International Journal of Business Economics & Management Research, *ZIJBEMR*, Vol.8 (2), FEBRUARY (2018), pp. 32-38.
- [8] Mallick, S. K., A. Sarkar, K. Roy, T. Duttachaudhuri, and A. Chakrabarti. 2010. Dynamics of Emerging India's Banking Sector Assets: A Simple Model. *Journal of Asset Management*. 11(1). pp. 62–70.

-
- [9] Moirangthem Biren Singh & N. Tejman Singh (2006). Working capital management of micro' small and medium enterprises (MSMEs) in Manipur- an empirical study. *International journal of research in computer application & management*. Vol. 3 (2).
- [10] Prasad, C. S. 2006. Micro, Small and Medium Enterprises Financing in India—Issues and Concerns. CAB Calling. July–Sept. pp. 35–40.
- [11] Reserve Bank of India. 2005. Policy Package for Stepping Up Credit to Small and Medium Enterprises. Mumbai, India: *Reserve Bank of India*.
- [12] Reserve Bank of India. June 25, 2019. Report of the Expert Committee on MSME. Available at: <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924#CH2>
- [13] R Benkraiem, C Gurau, How do corporate characteristics affect capital structure decisions of French SMEs? *International Journal of Entrepreneurial Behavior & Research* 19 (2), 149-164