
BARRIERS FOR GETTING START UP BUSINESS LOANS - A STUDY ON MICRO SMALL AND MEDIUM SCALE ENTERPRISES IN CUDDALORE DISTRICT, INDIA.

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ABSTRACT

Purpose The purpose of the article is to analyze the barriers for obtaining startup business loans for Micro Small and Medium Scale Enterprises (MSMEs). The MSMEs are acting as backbone of Indian economy. The MSMEs employ majority of the working force in India next to agriculture. In a developing country like India, encouraging the MSMEs startups will lead to better economic development of the nation.

Design/ Methodology/ Approach: A well-structured questionnaire was developed for the research study. An extensive literature survey was conducted and the major barriers for obtaining start up business credits for MSMEs were identified. Questionnaire interview method was adopted for collecting the sample. The universe of the research study is the total number of MSMEs in Cuddalore district. The sample respondents were selected on the basis of convenient sampling method. The sample size of the research study is 206 respondents of MSMEs in Cuddalore district. Research tools like Chi-Square test, simple percentage analysis, weighted average method and Root cause analysis method was adopted in the study for analyzing the collected samples.

Findings: The results of the research study revealed that the major barriers for getting MSMEs startup business loans were lack of awareness about the credit policies, delay in sanctioning loan, collateral security requirement from the lenders. The root causes for the mentioned barriers and the possible solutions to overcome the barriers were discussed in appropriate section in the research article.

Practical Implications: The findings of the research study will help the entrepreneurs, policy makers, academicians and the bankers. The entrepreneurs can have an understanding about the major barriers of getting the credits from the lenders and can prepare accordingly before applying for the business loans. The bankers can have an anticipation about the MSME customers and their expectations before providing start up credits.

Keywords: MSMEs, Start-up Loan, Credit Policies, Barriers for Loan.

1.INTRODUCTION

The Micro Small and Medium Scale Enterprises (MSMEs) form the backbone of Indian economy. Next to agriculture the MSMEs employ majority of the work force in India. The total market value of the MSMEs was estimated to be 5 billion USD.

The MSMEs provide a noteworthy contribution to the flourishing of the Indian Economy. The MSMEs contributes 45 percent of the total Industrial output. About 40 percent of the total exports from India is contributed by MSMEs. More than 80 percent of the Industrial units in India can be classified under Micro Small and Medium Scale Enterprises. The MSMEs employ approximately 10 percent of the working population in India directly and indirectly through contract labours. The MSMEs employs for 42 million people directly as full time labours. These MSMEs manufactures 8000 products in India and exports them to various nation across the world. Thus the importance of MSMEs is essential for the growth of the country.

According to MSME ministry in India these enterprises are divided in to three categories namely

1. Micro
2. Small and
3. Medium Scale Enterprises

The criteria for classification of the MSMEs differs based on the type of business these enterprises are indulged in ant their investment on the plant, machinery or equipment the enterprises are using

Table 1: Table Showing Classification of Micro, Small and Medium Scale Enterprises

Classification	Investment Ceiling for Plant, Machinery or Equipment	
	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs. 25 Lakhs	Up to Rs. 10 Lakhs
Small	Above Rs. 25 Lakhs and Up to Rs.5 Crores	Above Rs. 10 Lakhs and Up to Rs. 2 Crores
Medium	Above Rs. 5 Crores and Up to 10 Crores	Above Rs. 2 Crores and Upto Rs. 5 Crores.

The micro small and medium enterprise classification is based on the total investment these enterprises make in their plant, machinery and equipment. This classification is easy to understand and can better manage the enterprises based on the classification.

1.2 Financing Business Start-Ups

The lending process of the business loans for MSMEs has various steps and procedures. Some of the commonly followed steps by the lenders is elaborated in this section. The major steps in financing the MSMEs startups are

1. Initial Evaluation

2. Credit Policy

3. Approval Process
4. Loan Disbursement
5. Loan Monitoring
6. Collection and Recovery

During the initial phase the executive of the bank personally visits the customers at their convenient place to have a formal interaction before providing loans. Then the credit policies of the banks are explained clearly to the MSMEs business loan borrowers which includes the interest rate on loan, loan to value ratio, collateral requirements, postdated cheque requirements before signing the agreements, repayment procedure, penalty for not maintaining sufficient funds in the account, penalty for delayed payment and default, financial restructuring process and requirements, etc. The MSMEs are then asked to fill in the loan application, these applications are then subjected to approval process by the loan officers of the bank. The loan officers will assess the credit worthiness of the applying firm before approving or rejecting the business loans. The report provided by Credit rating agencies like CRISIL, ICRA plays a vital role in deciding the approval or rejection of the business loans for the MSMEs.

The loan is then disbursed to the MSMEs and after disbursement the lenders will periodically monitor the business startup loan and confirm whether the MSMEs are performing as promised while applying for the business loans. At times the lenders provide professional financial advices to the MSMEs to foresee the pitfalls in the business and the ways to overcome the pitfalls. The collection and recovery of the loan is the final step in the business loans, in which the collection of payments and recovery of the interest and principal takes place.

2. LITERATURE REVIEW

Basu A (2004) in the research article titled “Entrepreneurial Aspirants among family business owners- An analysis of ethnic business owners in UK” explored the antecedents that explain the difference in aspiration and the business behavior of the entrepreneurs. The author found that education and family background affects the entrepreneurs’ aspiration. The author also distinguished the characteristics of the entrepreneurs such as business first, family first, money first and lifestyle-first aspirants. The difference in the aspiration is related to nature of business, the way in which it is managed and the stages of their family life cycle. This article is related to the present study by understanding the nature of the entrepreneurs and the way and context in which they approach the bankers before applying for the startup business loans.

Brindley C (2005) analyzed the entrepreneurial experience of a women and the possible risk associated with the women entrepreneurs. The decision making capabilities in the gender differences is explored in this research. The author used a desk based approach for data collection and overviewed main issues concerning risk and entrepreneurship. It was finally concluded in the research study that understanding the gender differences in the context of risk taking abilities is required for the policy makers to be helpful and constructive to the women entrepreneurs. The potential help from policy makers is not only required just during the business startup but also an extended business support is required for the women entrepreneurs to run their business successfully.

Rouse, J. and Jayawarna, D (2006) conducted an electronic survey to assess the effectiveness of New Entrepreneur Scholarship (NES) initiated by United Kingdom enterprise program. The research study explored whether the program is capable enough to fund the finance gap of the aspiring entrepreneurs while initiating their business startups. The research study was conducted by getting responses from 472 samples through electronic survey. Three capital structure variables namely external private investment, personal investment and grants are investigated to analyse the difference in the financing need. The research finally concluded that half of the NES scholars are under capitalized and the NES scholars significantly make lower start up investment in United Kingdom when compared to the Small and Medium Enterprises in United Kingdom.

Zakkariya, K.A. and Nishanth, P (2014) investigated the barriers faced by Micro Small and Medium scale industries in raising finance. The data required for research is collected from Kozhikode district, Kerala, India. The authors described the importance of MSMEs in the context of developing country like India and their prodigious role in economic development of the country. The authors also added the difficulties in raising finance for MSMEs while procuring raw materials, marketing and distribution of their products and technology transfer. The authors identified the potential barriers for raising funds to be repayment position, multiple loan from various banks, Banks from which the credit facility is obtained etc. The authors also explored the sources of funds for MSMEs other than banks and provided suggestions for the MSMEs while getting credit facilities.

3. RESEARCH METHODOLOGY

Descriptive research was carried out in the study. An extensive literature survey was conducted and the major barriers for obtaining start up business credits for MSMEs were identified. A well-structured questionnaire was developed with the help of established scales. Questionnaire interview method was adopted for collecting the sample. The universe of the research study is the total number of MSMEs in Cuddalore district. The sample respondents were selected on the basis of convenient sampling method. The sample size of the research study is 206 respondents of MSMEs in Cuddalore

district. Statistical tools like Chi-Square test, simple percentage analysis, weighted average method and Root cause analysis method was adopted in the study for analyzing the collected samples.

To test the validity of the items in the questionnaire, content validity method was adopted. The questionnaire was subjected to content validity. The determination of validity was judgmental. The questionnaire was provided to experts in the field and were asked to opine on the items present in their questionnaire. Based on the feedback obtained from the experts in the field like bank managers, entrepreneurs, executives and policy makers necessary changes were made in the questionnaire and then finalized in this study, the researcher has subscribed to the second perspective where quantitative assessment of the content validity has been followed.

The content validity was conducted at two stages with the help of 8 experts. In the first stage, the content validity was conducted with 4 experts and after obtaining the opinion from the 4 experts in the first stage the second opinion was obtained from next four experts in the field in stage two in the second with 8 experts. The experts inspected the items present in the questionnaire, according to their expertise in the field and finalized the questionnaire. The content validity ratio was applied to each item. The items in the questionnaire which exceed content validity ratio more than 0.7 were selected for further data collection. The collected data was analyzed with the help of IBM- SPSS software with the help of statistical tools like Chi-Square analysis, simple percentage analysis and weighted average method.

3.1 Research Objectives

The primary objective of the research is to identify the major barriers for getting start up business loan for Micro Small and Medium scale industries. The objectives of the research also includes

- To analyze the perception of MSMEs about the major barriers for MSMEs startup business loan.
- To perform the root cause analysis for the major barriers for MSMEs start up business loan.
- To provide valuable suggestions for the identified root cause of the identified barriers.

4. ANALYSIS

The sample profile of the respondents is provided in Table 2. A total of 206 Micro Small and Medium Scale Enterprises (MSMEs) were surveyed and among the 206 MSMEs, 93 are micro enterprises, 69 small enterprises and 44 medium scale enterprises. The micro, small and medium scale enterprises accounted for 45.1, 33.5 and 21.4 percent of the total sample respondents respectively. Similarly based on the type of business the sample respondents were classified in to Service oriented

enterprises and Manufacturing oriented enterprises. There are about 157 service oriented enterprises and 49 manufacturing oriented enterprises among the total 206 sample respondents. The service oriented enterprises and manufacturing oriented enterprises accounted for 76.2 and 23.8 percent of the total sample respondents respectively.

Table 2: Showing Sample profile of the respondents

		Frequency	Percentage
Type of MSME	Micro	93	45.1
	Small	69	33.5
	Medium	44	21.4
	Total	206	100
Type of Business	Service	157	76.2
	Manufacturing	49	23.8
	Total	206	100

Lack of Awareness about Credit Policies

The major barrier for obtaining business startup loans for MSMEs was identified to the lack of awareness about the credit policies of the banks that are offering MSME loan. The banks are marketing their financial products in an attractable manner but the in reality the actual face of the financial products and the hidden charges are not so clear to the MSMEs. This leads to the lack of awareness about the credit policies of MSME start up loans offered by the banks.

From the questionnaire survey method conducted in the research it was clear that a mere 7 percent of the sample respondents strongly disagreed that lack of awareness about the credit policies offered by the bank is the primary barrier for obtaining start up business loan whereas about 64 percent of the sample respondents either agreed or strongly agreed that the lack of awareness is the primary barrier for getting business credits from banks.

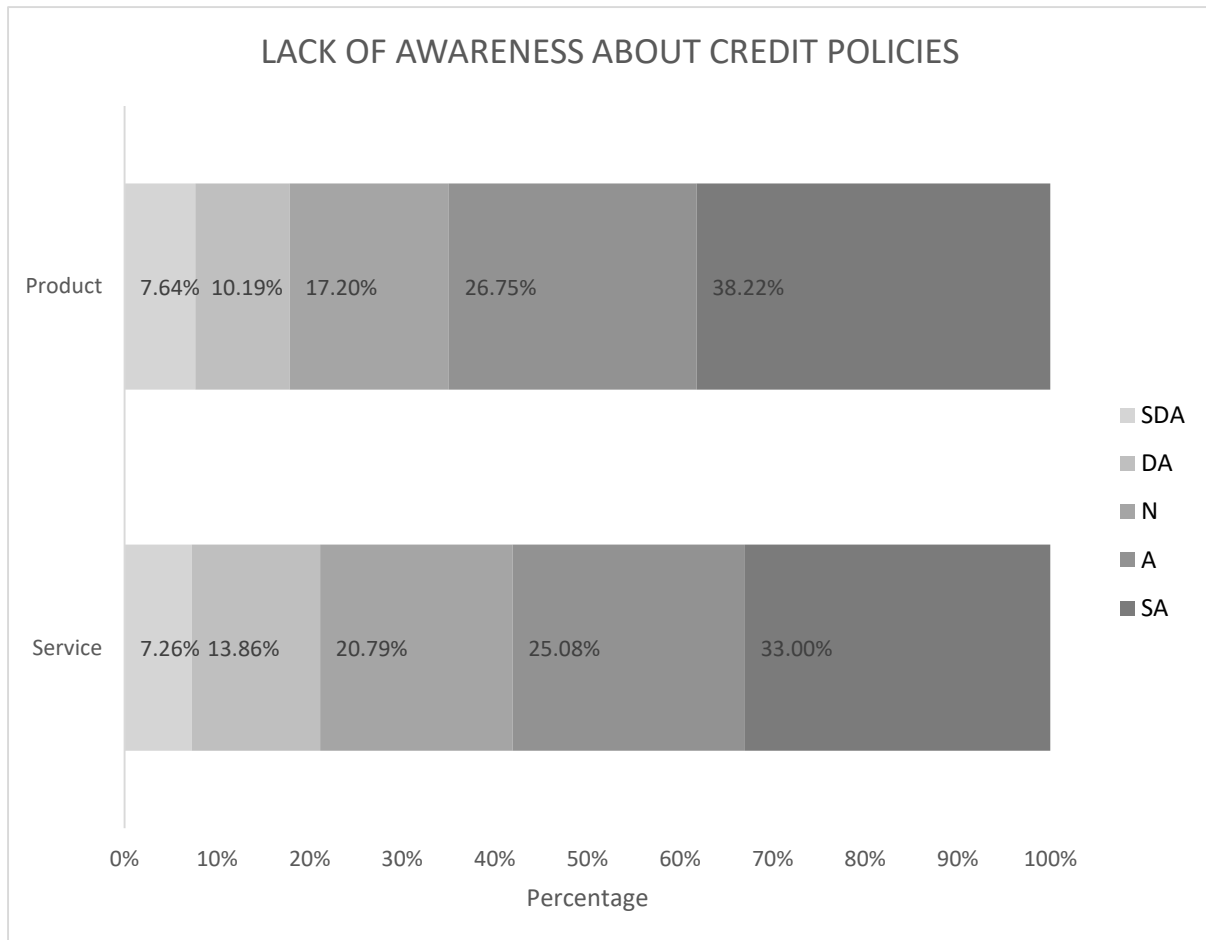


Figure 1: Chart Showing Percentage Analysis on Lack of Awareness

Delay in Sanctioning Loan

The second major barrier while obtaining business credits was found to be delay in sanctioning loan to MSMEs. The appraisal process of the MSMEs business loan is a complicated process and may take time for approval, this delay in business loans is causing tremendous loss to MSMEs. The perception of MSMEs about the barrier delay in sanctioning loan was given in Figure 2.

From the figure it is clear that about 13 percent of the MSMEs strongly disagree that the delay in sanctioning loan is a major barrier for obtaining MSME loans whereas about 31 percent of the sample respondents agree that delay in sanctioning loan is one of the major barrier in obtaining start up business loan from the banks.

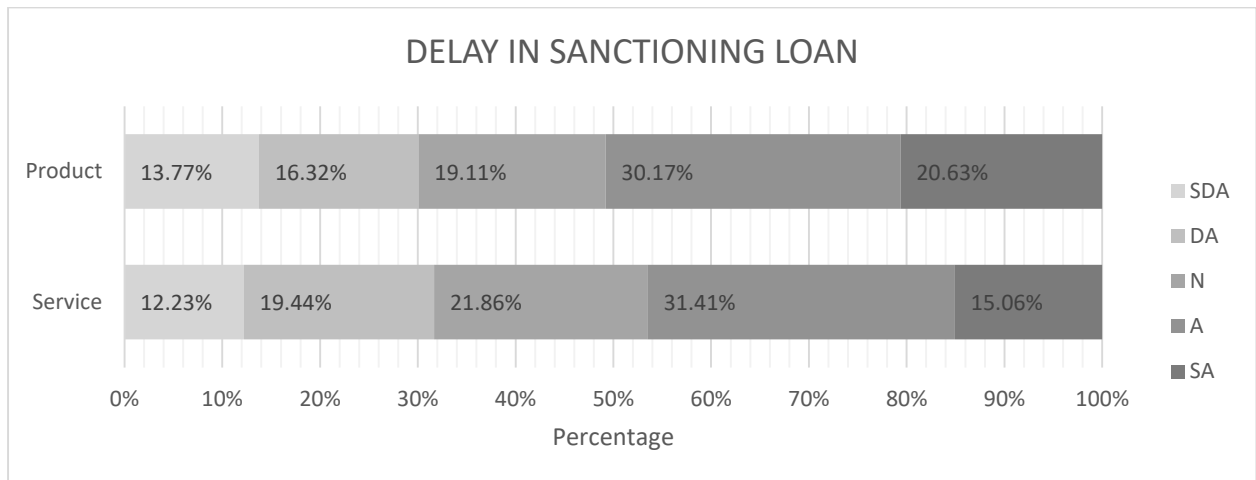


Figure 2: Chart showing percentage analysis on Delay in Sanctioning Loan

Inability to Repay

The major barrier for getting MSME start up business loan was identified to be inability to repay. A chi square test was conducted to analyze the barrier inability to repay. A cross tabulation was made for MSME type and the perception of MSME about the inability to repay as a barrier for getting MSME start up business loans. The results of the Chi Square analysis was shown in table 4.

Table 3: Table Showing Cross Tabulation of MSME Type and Inability to Repay

		Inability to Repay					Total
		SDA	DA	Neu	Agree	SA	
MSME Type	Micro	5	6	5	31	46	93
	Small	7	13	14	27	8	69
	Medium	7	6	16	9	6	44
Total		19	25	35	67	60	206

Table 4: Table Showing Chi-square test results of Inability to Repay

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	53.373 ^a	8	.000
Likelihood Ratio	54.670	8	.000
Linear-by-Linear Association	28.715	1	.000
N of Valid Cases	206		

From the results of the Chi-Square test it is clear that the different type of MSMEs have different perception about the barrier inability to repay. About 46 sample respondents who belong to the category micro enterprises strongly agree that the inability to repay is a major barrier for MSME start up loan. Whereas majority of the medium scale enterprises perceive that the inability to repay is not a major barrier for MSME loan approval.

This difference in the perception among the different type of MSME lead to a statistically significant chi square test at 1 percent level.

Collateral Security Requirements

The next major barrier for getting MSME start up business loan was identified to be Collateral Security requirement by the lenders. A chi square test was conducted to analyze the barrier collateral security requirement. A cross tabulation was made for MSME type and the perception of MSME about the collateral security requirement as a barrier for getting MSME start up business loans. The results of the Chi Square analysis was shown in table 6.

Table 5: Cross tabulation of MSME Type and Collateral Security Requirement

		Lack of awareness					Total
		SDA	DA	Neu	Agree	SA	
MSME Type	Micro	11	15	12	29	26	93
	Small	16	10	17	10	16	69
	Medium	12	7	10	6	9	44
Total		39	32	39	45	51	206

From the results of the Chi- Square test it is clear that the different type of MSMEs have different perception about the barrier collateral security requirement. About 55 sample respondents who belong to the category micro enterprises agree or strongly agree that the collateral security requirement is a major barrier for MSME start up loan. Whereas majority of the medium scale enterprises perceive that the collateral security requirement is not a major barrier for MSME loan approval. This difference in the perception among the different type of MSME lead to a statistically significant chi square test at 1 percent level.

Table 6: Chi-Square Tests for Collateral Security Requirement

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.695 ^a	8	.047
Likelihood Ratio	15.956	8	.043
Linear-by-Linear Association	6.767	1	.009
N of Valid Cases	206		

DISCUSSION

After analyzing the perception of MSMEs the major barriers for obtaining startup business loans for MSMEs are identified a weighted average analysis was conducted and the primary barriers for MSMEs were identified to be

1. **Lack of awareness about credit policies of banks**
2. **Delay in sanctioning loan**
3. **Collateral Security requirement demanded by the banks**
4. **Bankers Not cooperative.**

The results of the weighted average method was shown in table 7. The ranks of the weighted average method was also investigated and the barriers for obtaining start up business loans was ranked according to the perception of the sample respondents.

Table 7: Table Showing Weighted Average Scores of Barriers for raising Loans

Factors\Rank	1	2	3	4	5	6	7	Weighted Average	Rank
Lack of awareness about credit policies of banks	56	61	28	33	11	11	6	1091.2	1
Delay in sanctioning loan	39	28	17	50	17	45	11	874.3	2
Collateral Security requirement	11	39	61	11	28	22	33	824.1	3
Bankers not co operative	50	17	6	28	17	11	78	740.6	4
Credit Rating Agencies	22	17	28	22	45	39	33	729.4	5
Unclear about Process of approval	28	6	11	39	56	45	22	718.2	6
Inability to repay	6	28	39	11	33	39	50	673.6	7

A fish bone diagram of root cause analysis of the barriers for getting start up business loan for MSMEs was conducted. The possible reasons for the major barriers of getting MSMEs business was identified to be

- Financial Illiteracy of MSMEs
- Failure of Lenders to Market their credit policies
- Complicated process of loan approval
- Non credit worthiness of MSMEs
- Attitude of bankers towards MSMEs
- Stringent Norms of Credit Rating Agencies
- Lack of support and guidance
- Lack of financial power
- Lack of action plan to reach objective

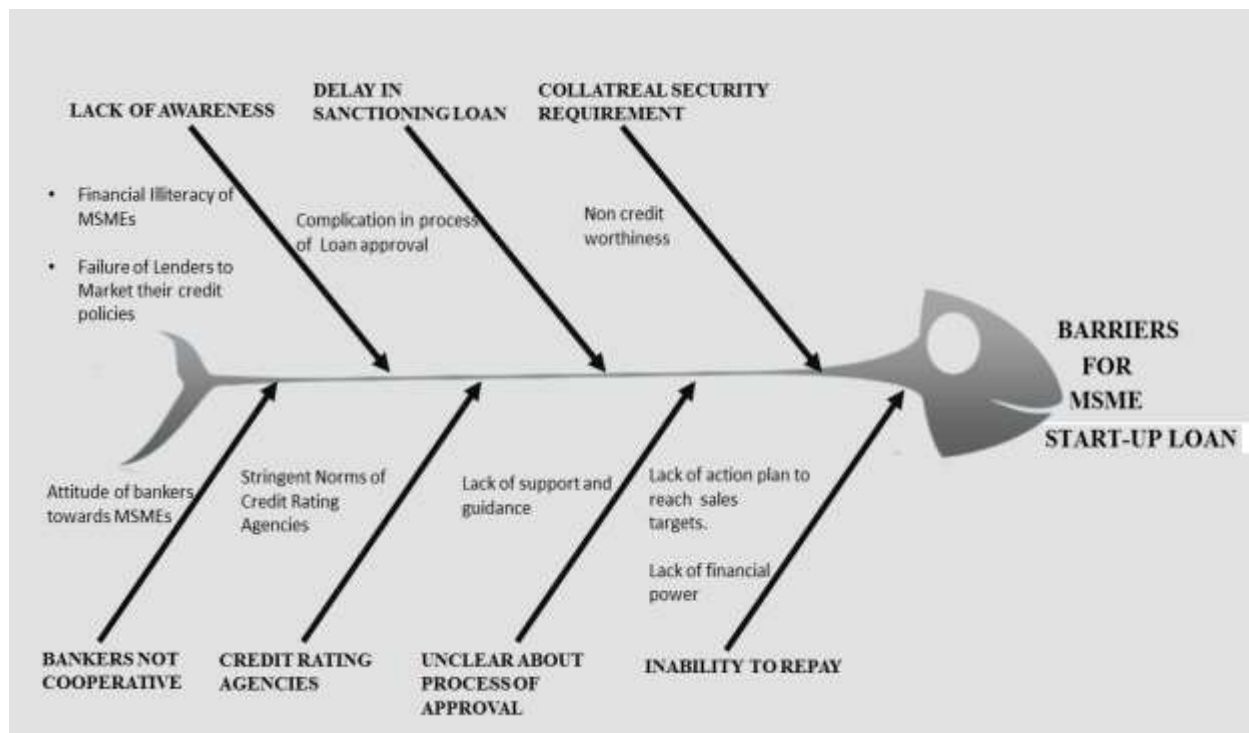


Figure 3: Figure Showing Fishbone Diagram of Barriers for raising start up loans for MSMEs

5. IMPLICATIONS

The findings of the research study will help the entrepreneurs, policy makers, academicians and the bankers. The entrepreneurs can have an understanding about the major barriers of getting the credits from the lenders and can prepare accordingly before applying for the business loans. The bankers can have an anticipation about the MSME customers and their expectations before providing start up credits.

Table 8: Table Showing Causes and Possible solution for Getting MSME business Loan

Factors\Rank	Possible Causes	Solutions
Lack of awareness about credit policies of banks	<ul style="list-style-type: none"> Financial Illiteracy of MSMEs Failure of Lenders to Market their credit policies 	Bankers can conduct awareness campaign to the MSMEs Government can take initiatives to improve financial literacy of MSMEs
Delay in sanctioning loan	<ul style="list-style-type: none"> Complicated process of loan approval 	Policy makers can involve in a discussion that simplify the startup business loan approval.
Collateral Security requirement	<ul style="list-style-type: none"> Non credit worthiness 	Credit worthiness of the MSMEs can be improved through proper financial guidance
Bankers not co operative	<ul style="list-style-type: none"> Attitude of bankers towards MSMEs 	Training program can be conducted for the bankers to maintain proper relationship with business customers
Credit Rating Agencies	<ul style="list-style-type: none"> Stringent Norms of Credit Rating Agencies 	Credit rating agencies can have a pleasant approach towards MSMEs.
Unclear about Process of approval	<ul style="list-style-type: none"> Lack of support and guidance 	Proper guidance and support for the MSMEs can be provided by government officials by conducting periodical trainings.
Inability to repay	<ul style="list-style-type: none"> Lack of financial power Lack of action plan to reach objective 	Financial guidance and strategies to reach objectives can be provided by the stake holders of MSMEs.

6. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The results of the research study is based on the MSMEs and their start up loan approval and hence generalizing the results to other industry may have its own restriction.

The research study is carried out in Cuddalore District of Tamil Nadu, India, hence it may have geographical restrictions for the results obtained.

The data was collected for a period of six month time hence the results of the research can have temporal limitations.

The results of the research study is limited to the statistical tools used in the research study like chi-square test, weighted average method etc.

Future research can focus on the other geographical locations in India to gain an integrated view about the barriers for startup business loan for MSMEs.

7. CONCLUSION

This research will have a prodigious impact upon the stake holders of MSMEs. The potential barriers for getting the startup business loans were identified. The possible reasons getting MSMEs business loans was also identified, after analyzing the root cause the possible solution for overcoming the barriers was also discussed in the research study. The research will help the entrepreneurs by making them understand the major barriers for getting loan and possible ways to overcome the barriers. The

research will help the policy makers by providing them the voice of end users to device rules and regulations while designing the business loans. The research can also be used by the bankers by helping them foresee the expectations of MSME customers and their capabilities before providing start up credits.

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