Chapter-I

Introduction and Design of the Study
## CHAPTER-I
### INTRODUCTION AND DESIGN OF THE STUDY

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Means of Finance to Small Scale Units</td>
<td>4</td>
</tr>
<tr>
<td>1.2</td>
<td>Financial System</td>
<td>5</td>
</tr>
<tr>
<td>1.3</td>
<td>Need And Significance of Study</td>
<td>6</td>
</tr>
<tr>
<td>1.4</td>
<td>Statement of The Problem</td>
<td>7</td>
</tr>
<tr>
<td>1.5</td>
<td>Scope of the Study</td>
<td>9</td>
</tr>
<tr>
<td>1.6</td>
<td>Objectives of the Study</td>
<td>10</td>
</tr>
<tr>
<td>1.7</td>
<td>Hypotheses of the Study</td>
<td>10</td>
</tr>
<tr>
<td>1.8</td>
<td>Methodology</td>
<td>11</td>
</tr>
<tr>
<td>1.9</td>
<td>Sampling Design</td>
<td>12</td>
</tr>
<tr>
<td>1.10</td>
<td>Questionnaire Development &amp; Data Collection</td>
<td>13</td>
</tr>
<tr>
<td>1.11</td>
<td>Reliability Test</td>
<td>15</td>
</tr>
<tr>
<td>1.12</td>
<td>Statistical Tools</td>
<td>18</td>
</tr>
<tr>
<td>1.13</td>
<td>Factor Analysis</td>
<td>21</td>
</tr>
<tr>
<td>1.14</td>
<td>Limitations of the Study</td>
<td>22</td>
</tr>
<tr>
<td>1.15</td>
<td>Chapter Scheme</td>
<td>23</td>
</tr>
</tbody>
</table>
CHAPTER-I
INTRODUCTION AND DESIGN OF THE STUDY

Industrialization is an ongoing process which accelerates economic growth and induces social change. The process of socio-economic changes is the intrinsic part of human civilization. Man has been striving ceaselessly to discover the secrets of nature and thereby benefit immensely in creating peaceful, rich life for himself and his fellow beings. Man has been benefitted by agricultural, industrial and information activities. Industrialization is one of the important means to usher in an economic and social transformation in the developing countries. More so, when agriculture alone cannot sustain the burden of the growing population, it is the Industries and service sectors which have to shoulder the responsibility to sustain and at the same time, accelerate the pace of growth. It is indispensable for survival and growth. Industrialization results from the interactions of technological change, innovation, entrepreneurial growth, specialization and trade. Good transportation and an efficient communication systems and an educated work force help promote the rapid development of industries. Well defined rules reduce the cost of transactions as specialization increases and economy becomes complex. For centuries, small enterprises have been playing pivotal role in economic development. In the post-independence period small industry has made spectacular progress in India. With this progress, several challenges have been thrown up which need to be met promptly & effectively. The industrial policy resolution 1956 puts forth arguments in favour of small scale units.
The benefits of small scale units are:

- Employment generation: As Small scale units are labour intense comparatively thus creates job opportunities per units of capital employed.

- Equal distribution of income: Income generated in more number of companies can be dispensed widely in a community than income generated in few large enterprises.

- Tap latent resources – Like entrepreneurial array, Hoarded wealth, starting and operating a new business involve considerable risk and effort to overcome the inertia against creating something new. In creating and growing a new venture, the entrepreneur assumes the responsibility and risk for its development and survival and enjoys the corresponding rewards. Small entrepreneurs encourage the growth of a class of small entrepreneurs which introduces dynamic element in the economy.

- Leads to development of Industrialization in backward areas – Locating Small scale units are decentralized to its flexibility. This helps in tapping local resources like raw material, ideal savings – local talent etc. thereby lead to industrialization of backward areas.

- It leads to economic growth – Due to above all reason it leads to economic growth. The special feature of the planning in India is that it does not stop at giving conceptual emphasis on the Growth of Small scale units.

As India is predominantly an agricultural country, a proper development of Small scale units is important for the healthy growth of our country. Villages and small industries in their different aspects are an integral and continuing element both in the economic structure and in the scheme of nation planning Development. In India socio-economic factors affecting small scale units came to notice during
industrial revolution with notion of entrepreneurial importance gaining favor by mid twentieth century. It has been primarily during the past two decades that attempts to design programmes to promote Small scale units sector as part of national development plans have been implemented. India was the first among the developing countries to have assigned a significant role to small scale units right from the first five year plan itself. The small scale sector has attracted so much attention not only from industrial planners to economists but also from sociologists, administrators and politicians. It is a matter of pride that India has a distinct position of its own among the developing counties particularly in the order of small scale units. India has a vast reservoir of scientific and technical manpower occupying third position in the world as far as the technical manpower is concerned. Worldwide, Small scale units have been recognized as a tool for economic growth. In India, Small scale units account for almost 45% of total industrial production, 95% of the small scale units and 40% of the exports.(as per 2016 report). They manufacture over 6000 products, ranging from handloom sarees, carpets & soaps to pickles, papads and machine parts for large industries. It is estimated that an investment of Rs. 10 lakhs in fixed assets in the small sector produce goods or services worth Rs. 46.2 lakhs with approximate value addition of 10% points. In 2014-15 the contribution of small scale units sector alone to GDP was 8% in the and, the growth rate of SME has been consistently higher than the overall growth rate of the industrial sector and crossing the 12% mark in the terminal year of the 10th plan.
1.1 MEANS OF FINANCE TO SMALL SCALE UNITS

Earlier characteristic feature of Small scale units was that the personal fund of entrepreneur was forming substantial portion of total asset. Most of the units were not corporate entities. So the risk of small scale units was considerably higher than corporate units. But today it is not so after globalization and privatization. In many financial institutions that is commercial banks specialized agencies both public sector as well as private sector have come up with many schemes which provide financial assistance to Small scale units not only for working capital purpose but also for fixed capital needs. Finance is the life blood for any economic activity. Growth of any organization or industry can take place only if it is supported by finance. Availability of finance for economic activity depends on existence of well organized role of financial institution for growth of Small scale units. Financial Institutions play major role in the growth of Small scale units. They are the ones who provide financial assistance for Small scale units for different purposes thereby encourage the growth of Small scale units. After globalization, Establishment of globalization, liberalization and privatization policy private financial institution started playing role in the economy along with public sector financial institution. They came out with innovative financial services in general and in specific even for Small scale units. This has encouraged growth of Small scale units. Some of the services provided by the financial institution specifically for Small scale units are:

i. Venture capital
ii. Loan, advances
iii. Cash credit
iv. Factoring services
v. Leasing finance
vi. Raw material assistance
Apart from this they provide many other services for Small scale unit like

i. Performance & credit rating scheme
ii. Marketing intelligence cell scheme
iii. Buyer seller meets
iv. Tender marketing and so on

1.2 FINANCIAL SYSTEM

Financial institutions are the component of financial system. Financial institution is one which mobilizes the funds and channelizes the mobilized funds for the production purpose. It is intermediary or bridge between the savers and borrowers. They play a major role in collaborating industrial growth. They provide financial inputs to industries in the form of loans & advances at a reasonable rate of return. They mobilize the small savings of public and will be able to provide funds for industrial progress. Financial institution provides financial services and product which customer needs. Financial Institutions provides like Economy of scale, Lower transaction cost and Diversification.

Some of the financial institutions providing finance to the Small scale units’ progress are:

<table>
<thead>
<tr>
<th>Public sector financial institutions</th>
<th>Private sector financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Commercial banks</td>
<td>a) ICICI Bank</td>
</tr>
<tr>
<td>b) Rural development banks</td>
<td>b) IDBI Bank</td>
</tr>
<tr>
<td>c) Co-operative banks</td>
<td>c) HSBC</td>
</tr>
<tr>
<td>d) State Finance Corporations</td>
<td>d) Axis bank</td>
</tr>
<tr>
<td>e) SIDC’S</td>
<td>e) Kotak Mahindra Bank</td>
</tr>
<tr>
<td>f) SISDC’S</td>
<td>f) India Bulls</td>
</tr>
<tr>
<td>g) NSIC</td>
<td>g) Reliance Religare</td>
</tr>
<tr>
<td>h) Other specialized financial institution like SIB (division of SBI)</td>
<td></td>
</tr>
</tbody>
</table>
1.3 NEED AND SIGNIFICANCE OF STUDY

Small is beautiful, so also small scale industries. It is a significant segment of Indian economy. The basic objective underlying in the development of small and medium industries are the increase in the supply of manufactured goods, promotion of capital formation, development of indigenous entrepreneurial talent and skills and creation of employment opportunities. In addition, they include such socio economic goals as the decentralization and disbursable of any manufacturing activities from metropolitan to non metropolitan and rural areas, the reduction of regional economic imbalances within the country and diffusion of entrepreneurial and managerial abilities and skills as well as technology through-out the country.

The small scale industries have been experiencing major turnaround in the post liberalization period with the growth rate hovering 15% which is much higher than large scale industries. In labour abundant capital scare country like India, small scale industries have come to occupy significant position in the planned industrialization of the economy. Most small scale industries have low capital intensity and high potential for employment generation besides possessing location flexibility which serve an effective instrument for achieving a wide disbursal industrialization. Apart from this, small scale enterprises are the beehive of entrepreneurship, innovation, growth and development of late; Asian industries have adopted deliberate policy of promoting and encouraging small enterprises as a strategy for the accelerated industrialization. India too has given highest priority for fostering the development of small sectors. Small scale enterprises are no long longer fighting local battle but global war. In such global competitive scenario, small enterprises may emerge victorious by changing the tactics of war-fare. To enable small scale enterprises to succeed and excel, it is necessary to provide basic
tool and techniques of modern management for which it needs timely credit, financial services from various financial institutions. This study aims at throwing light on financial services provided by public and private sector financial institutions to accelerate the growth of Small scale units i.e., the growth and sustenance of any Small scale units depends on availability of financial services which in turn supported by public and private financial institutions. The financial cost dictated by financial institutions determines the survival of the industry. Due to this reason, the need is felt for the study of contributions of financial institutions for the growth of Small scale units.

1.4 STATEMENT OF THE PROBLEM

Finance is key input of production, distribution and development of any business organization. It is therefore, finance aptly described as the ‘life-blood’ of industry and is a pre-requisite for accelerating the process of industrial development. The process involved in setting up an industrial unit like providing the infrastructure, placing, advertisements, marketing the product and the like are based on free flow of funds and a sound financial position. Finance assumes great importance because non-availability of timely and adequate finance acts as a restraining factor.

During the pre-independence period, financial constraints had hampered the brisk development of industries in India. Post independence, the government has built up a network of specialized financial institutions with a fairly big capital base to provide financial assistance to all type of industries, including the small-scale units.
A multi-agency credit structure, to fulfill the various types of financial needs of the units in the small scale units sector, has been evolved in the country over the years. The Reserve Bank of India as the central monetary authority of the country has been instrumental in ensuring availability of credit to the small scale units sector.

Different national and state level institutions operating in the country for meeting the credit requirements of the small scale units sector include Small Industries Development Bank of India both public and private sector Commercial banks, Regional Rural Banks, Co-operative Banks, State Financial Corporations/State Industrial Investment Corporations, State Small Industries Development Corporation, National Bank for Agricultural and Rural Development, Statutory bodies (KVIC, COIR board and Handloom Board), National Small Industries Corporations Limited and the like.

To facilitate a higher flow of credit from institutional sources to the preferred sector including the small scale units, nationalization of major private sector banks was done in two phase’s in1980. Besides providing short-term assistance, commercial banks support small enterprises by extending term loans and by financing the government sponsored schemes. In the Indian banking system, small scale units enjoy the status of a priority sector in seeking financial assistance and borrowers belonging to this category have the benefit of availing loans on favorable terms. However, with the onset of banking sector reforms and as a part of deregulation of interest rates, the availability of credit has been linked to the rates of interest as determined by market forces.
A growing economy needs the support of a financial structure which is responsive to the needs of development. In India, in the process of financial deepening, commercial banks and other financial institutions have to shoulder special responsibilities for meeting the financial needs of diverse sector of the economy, including small scale units sector at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned various organizational innovations, moved away from traditional financing and evolved into development finance, responsive to socio-economic needs. The small scale units have to depend primarily on credit of financial institutions with their vast net work of branches.

In Karnataka state there are several financial institutions and banks which provide all sorts of financial assistance to the small scale units of these commercial banks both private and public sector banks and state financial corporation is playing a predominant role. To know the impact of institutional financing on small scale units the present study, ‘A Study on Institutional financing for the Development of Small Scale Units in Karnataka State ‘is taken.

1.5 SCOPE OF THE STUDY

The present study titled “A Study on Institutional financing for the Development of Small Scale Units in Karnataka State” aims to study the various credit schemes available to the small scale units and to find the problems associated with obtaining the loan from financial institutions that exists in the study area and to examine the growth of small scale units in the study area which is funded by the public and private financial institutions.
1.6 OBJECTIVES OF THE STUDY

1. To study the small scale units performance in India and particularly in Karnataka State.

2. To present an overview of schemes of assistance offered by financial institutions to small scale units.

3. To study the amount of finance funded by various types of financial Institutions.

4. To compare the growth of Small scale units funded by public and private sector financial institutions.

5. To examine the major problems faced by Small scale Units for getting financial assistance

6. To offer concrete suggestions and conclusion.

1.7 HYPOTHESES OF THE STUDY

The present study comprises a sample from the Karnataka state in India. It tries to examine the impact of institutions financing on the small scale units development. Karnataka is one the top five states which is having more small scale units and further in this state more number of small scale units. Sick units are found in fourth census of India. There is nothing wrong in assuming that the state with considerably good literacy rate is well aware of entrepreneurial activities and its impact to the economic race. For offering suitable suggestions to the various stakeholders, the researcher has done various analyses and tested with suitable hypotheses which are framed based on the previous studies in the similar domain.
Thus the hypothesis is formulated as;

1. There is no significant difference in disbursement of Loan between the private and public sector financial institutions.
2. There is no significant difference in cost and terms of loan in between the public and private sector financial institutions
3. There is no significant difference in level of difficulty in obtaining loan in between the public and private sector financial institutions
4. There is no significant difference in impact of Public and Private sector financial institutions financing on the growth of small scale units.

1.8 METHODOLOGY

The present is a regional study jacketed the Karnataka state. The Karnataka state is one of the industrially forwarded states in India and also the growth of small scale units is fast comparing to other states of the country. Karnataka is a sixth largest state in India with an area of 1.92 lakh square kilometers, further Karnataka is blessed with ample natural resources like forest, water-falls and minerals. Karnataka is well known for centuries for its trade with other states of the country and even to other countries with well supported by its MSMEs. The Karnataka state is pioneer in many economic planning and development since the Karnataka state has set up planning system even before any state in India with the thought of industrialization, communication, electrification and financial system in rural area.

The study aims at covering the major financial institutions which are financing small scale units in Karnataka which is Karnataka State. Further the study cover small scale units which are in the organized sector and are registered in the formal system. This study has macro level intention to highlight the role of
financial institutions in the promotion and development of small scale units in the country and particularly in the study area. Further at micro level, the study examines the impact of financial institutions financing and the problems associated while availing credit from the financial institutions by the small scale units. The researcher collected the data required for carrying out the present study in two stages. In the first stage, the personal and business related data of sample units, and performance of the sample units, financing structure are collected among the selected sample small scale units, respondents with the help of the questionnaire specially designed for this purpose. During the second stage of data collection, the researcher collects the secondary data related to the study such as the concepts relating to small scale units financing, various credit schemes available to the small scale units in India and particularly Karnataka state, further amount financed to small scale units by the public and private sector financial institutions etc., from various published and unpublished records, reports, books, magazines, websites etc.

1.9 SAMPLING DESIGN

The purposive sampling method is employed to select 429 small scale units respondents, from Karnataka state. Initially the researcher collected data relating to small scale units members from Small scale units Associations located in Karnataka state. In total 1607 small scale units were registered in various small scale units association, out of it 482 Small scale units were selected for the study and the questionnaire is personally administers the sample of 482 small scale units respondents in Karnataka. After repeated follow ups only 456 questionnaires could be received, out of which 27 questionnaires were rejected on account of incompletion. Finally 429 completed questionnaires are selected for the present
study. Hence these 429 respondents are considered as sample for the study. Even though the present study is related to the small scale units alone, the researcher has also taken into consideration micro and medium size industries also because in recent times all the financial institutions provides data comprehensively relating to the financing to them. A survey method is employed and a structured questionnaire is developed to measure demographic variables like age of the concern, production capacity, mean value capacity, sources of finance, credit availed from the financial institutions, purpose of credit and impact of these credits on their performance etc. Both open-ended and close-ended questions are employed for eliciting desired information from respondents.

1.10 QUESTIONNAIRE DEVELOPMENT & DATA COLLECTION

The tools for collection of primary data related to the present study are constructed by the researcher himself. The researcher is involved in observation study in study area and conducted Casual Interviews with the small scale unit management people and people from financial institutions in Karnataka state for the purpose of constructing questionnaire for the study. The researcher has given adequate weightage to the outcome of this discussion. While constructing the questionnaire. The questionnaire is framed in English for the better understanding of various technical terms related to the concept. The pilot study is conducted by the researcher during September 2014 and is covered fifty respondents from both small scale units and financial institutions. The researcher made necessary changes in the questionnaire and it is modified as per suggestions offered by respondents during the pilot study.
A structured questionnaire with two major sections is developed. The first section comprised of general questions related to business profile. The business profile variables such as age of the concern, type of organization, investment size, status under small scale units, number of employees, profile of promoters, gender, education, income and occupation are included. In the second section, financing related questions like amount of loan, processing fees, type of loan etc., were asked. Further in last section of second section of the questionnaire is devoted towards opinion from small scale units regarding problems associated with availing loans from financial institutions were asked. At the end, an open ended question inviting suggestions to improve the financing schemes to small scale units and opinions on the subject.

The study has been done large sample of small scale units from the Karnataka, in a particular period. From a Survey method is the best approach for a quantitative research with the help of a structured questionnaire. It helps to understand the possible relationships between data and the unknown variables in the Universe (Miller, 1978)\(^1\).

A questionnaire has been used as the instrument for collecting the research data. It is the best method in a survey, when the researcher is familiar with the variables needed to be measured in a big and dispersed sample size (Mischkind, 1986)\(^2\). In the beginning, a clear-cut goal is the most essential step in designing a questionnaire and it involves the planning before undertaking the project. The researcher looked into important issues to be covered and continuity is ensured. In a newly designed questionnaire, it is very important to test the developed instrument for the consistency (Saane et.al, 2003)\(^3\). Thus, a questionnaire has to satisfy the scale refinement and validation. This study mainly depends on primary data which is
collected by using a questionnaire. Based on the information gathered from the various review of literature and discussion with experts, a well-designed interview schedule is drafted and pre-tested with a sample of 50 consumers. In the light of their opinions and suggestions, necessary modification have been made in the questionnaire, finalized and then used in a field survey to collect primary data. The objectives of the study are clearly explained to the respondent personally and their co-operation is ensured. To minimize any recall bias, suitable crosschecks and rechecks are carried out.

1.11 RELIABILITY TEST

The reliability of scales used in this study was calculated by Cronbach's coefficient alpha. Cronbach’s alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer the Cronbach’s alpha coefficient is to 1.0, the greater the internal consistency of the items in the scale. Based upon the formula \( \alpha = \frac{r_k}{1 + (k - 1) r} \) where \( k \) is the number of items considered and \( r \) is the mean of the inter-item correlations, the size of alpha is determined by both the number of items in the scale and the mean inter-item correlations. If the coefficient alpha value exceeds the minimum standard of 0.70 it will provide good estimates of internal consistency reliability.

Attitude is an imprecise term. It is usually defined in terms of the internal and external conditions that bring attitude about the subject. Personal factors are often a source of attitude. In this section, factors related to attitude with respect to financing of financial institutions to the small scale units in the study area are discussed. The attitude about the financial institutions lending to small scale units in the study area includes procedures, security for loan, and priority for the small scale units, accessibility, interest rate, moratorium period, and so on. In this
section, study involving factors related to attitude about financing of financial institutions to the small scale units in Karnataka state is undertaken.

As shown in Table 1.1.1 coefficient alpha values ranged from 0.911 to 0.717 for all the constructs. All constructs obtained an excellent level of a coefficient alpha above 0.70, indicating that the scales used in this study were reliable. It provides the following rules of thumb: “> .9 – Excellent, > .8 – Good, > .7 – Acceptable, > .6 – Questionable, > .5 – Poor and < .5 – Unacceptable”. While increasing the value of alpha is partially dependent upon the number of items in the scale, it should be noted that this has diminishing returns. It should also be noted that while a high value for Cronbach’s alpha indicates good internal consistency of the items in the scale, it does not mean that the scale is uni-dimensional. Factor analysis is a method to determine the dimensionality of a scale.

**TABLE 1.1.1**

RELIABILITY OF SCALES AND ITEM-CONSTRUCT LOADINGS-
FACTORS RELATED TO ATTITUDE OF OWNERS OF SAMPLE SMALL SCALE UNITS TOWARDS FINANCIAL INSTITUTIONS LOAN A SMALL SCALE STANCES

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Scale Mean if Item Deleted</th>
<th>Cronbach's Alpha if Item Deleted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The working capital loans sanctioned by financial institutions are adequate</td>
<td>93.8718</td>
<td>.914</td>
</tr>
<tr>
<td>2</td>
<td>Financial considers the loan recommendations of DIC in respect of small scale units loans</td>
<td>93.9487</td>
<td>.915</td>
</tr>
<tr>
<td>3</td>
<td>Rate of interest charged by financial institutions is reasonable</td>
<td>93.9744</td>
<td>.912</td>
</tr>
<tr>
<td>4</td>
<td>The Financial institutions demands only reasonable securities from the borrowers</td>
<td>94.0140</td>
<td>.913</td>
</tr>
<tr>
<td>5</td>
<td>The financial institutions are closely located to the industrial unit</td>
<td>94.0186</td>
<td>.913</td>
</tr>
<tr>
<td>6</td>
<td>The financial institutions is closely located to the industrial unit</td>
<td>94.4895</td>
<td>.916</td>
</tr>
<tr>
<td>7</td>
<td>Margin money fixed by financial institutions for availing loan is reasonable</td>
<td>94.3193</td>
<td>.914</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------</td>
<td>----------------</td>
</tr>
<tr>
<td>8</td>
<td>The single window scheme adopted by the financial institution in sanctioning loan is useful to the borrowers</td>
<td>94.1375</td>
<td>.911</td>
</tr>
<tr>
<td>9</td>
<td>The loan application is short and elicits only the information required for grant or loan</td>
<td>93.9767</td>
<td>.914</td>
</tr>
<tr>
<td>10</td>
<td>Seed capital provided by the financial institution encourages many to start small scale units</td>
<td>94.0490</td>
<td>.912</td>
</tr>
<tr>
<td>11</td>
<td>Repayment schedules fixed are always realistic</td>
<td>94.0396</td>
<td>.912</td>
</tr>
<tr>
<td>12</td>
<td>Financial institutions considers the positive role of small scale units in sanctioning of loan</td>
<td>94.1049</td>
<td>.913</td>
</tr>
<tr>
<td>13</td>
<td>It is very easy to approach financial institutions officials while availing loans</td>
<td>94.0886</td>
<td>.917</td>
</tr>
<tr>
<td>14</td>
<td>As the loans granted sufficient and there is no need of loan from informal financial institutions</td>
<td>93.9557</td>
<td>.913</td>
</tr>
<tr>
<td>15</td>
<td>Those who repay loans regularly are given preferential treatment in granting further loans</td>
<td>94.4545</td>
<td>.914</td>
</tr>
<tr>
<td>16</td>
<td>Legal formalities adopted by the financial institutions in sanctioning loan are simple to understand</td>
<td>94.0186</td>
<td>.913</td>
</tr>
<tr>
<td>17</td>
<td>Financial institutions is soft in recovery of loan</td>
<td>94.1049</td>
<td>.912</td>
</tr>
<tr>
<td>18</td>
<td>Financial institutions does not show any favoritism in granting loans</td>
<td>94.1352</td>
<td>.911</td>
</tr>
<tr>
<td>19</td>
<td>Financial institutions displays all the information about the schemes benefiting customers on the notice board</td>
<td>94.3497</td>
<td>.913</td>
</tr>
<tr>
<td>20</td>
<td>Small scale units are treated on par with agricultural sector, in granting loan</td>
<td>94.4872</td>
<td>.914</td>
</tr>
<tr>
<td>21</td>
<td>Financial institutions takes reasonable time in processing loan</td>
<td>94.1329</td>
<td>.914</td>
</tr>
<tr>
<td>22</td>
<td>The Financial institutions does not impose rigid rules and regulations in granting loans</td>
<td>94.1515</td>
<td>.912</td>
</tr>
<tr>
<td>23</td>
<td>The norms followed by Financial institutions in assessing working capital requirement are satisfactory</td>
<td>94.1166</td>
<td>.914</td>
</tr>
<tr>
<td>24</td>
<td>The Financial institutions sanctions credit for all government sponsored schemes</td>
<td>93.8392</td>
<td>.914</td>
</tr>
<tr>
<td>25</td>
<td>The loan processing fee, inspection fee and other fees charged is reasonable</td>
<td>93.9487</td>
<td>.916</td>
</tr>
</tbody>
</table>

Mean: 98.03  Cronbach's Alpha: 0.917  Variance: 114.66  No. of Variables: 25  Std. Deviation: 10.71

Source: Primary data
1.12 STATISTICAL TOOLS

The following statistical tools were used for analyzing the data collected through the interview schedule and various sources were used so as to obtain meaningful inferences.

(i) Frequency analysis

Frequency analysis is performed to find out financial institutions lending to small scale units in the study area. The frequency distribution of variables are calculated with the help of simple percentage, by using the formula

\[ FD = \frac{F}{N} \times 100 \]

(ii) Trend Analysis

To study the trend in the financing and employment creation, export, production in through the small scale units in India and Karnataka, regression equation of the following form was used.

\[ Y = a + bT \]

Where

\[ Y = \text{Number of units /Production/employment in the year } 'T' \]

\[ T = \text{Time in years} \]

\[ a = \text{Constant} \]

\[ b = \text{Regression co-efficient} \]
(iii) **Compound Growth Rate**

The compound growth rate with regard to financing and employment creation, export, production in through the small scale units in India and Karnataka has been estimated on the basis of the semi-log or exponential function.

\[ \log Y = a + bT \]

Where

- \( Y \) = Number of units/production/employment in the year
- \( T \) = Time
- ‘a’ and ‘b’ are the parameters to be estimated

\[ \text{Compound growth rate} = [(\text{anti } \log b - 1) \times 100] \]

(iv) **One sample t test**

Data is segregated on the basis of responses given to various questions about the variable under consideration. Each question of performance of small scale units is tested with before and after availing loan with the help of one sample t test. This is done to test whether there is a significance difference between before and after availing loan from financial institutions and performance of the small scale units with the help of the formula

\[ t = \frac{\overline{x} - \mu}{s/\sqrt{n}} \]

Where,

- \( \mu \) = Proposed constant for the population mean
- \( x \) = Sample mean
- \( n \) = Sample size (i.e., number of observations)
- \( s \) = Sample standard deviation
- \( s_x \) = Estimated standard error of the mean (\( s/\sqrt{n} \))
(v) **Independent t test**

In order to find the significance difference between impact on the public sector and private sector financed small scale units performance the researcher used independent t test with the help of the formula

\[
t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S^2_{x_1}}{n_1 - 1} + \frac{S^2_{x_2}}{n_2 - 1}}}
\]

(vi) **Henry Garrett’s Ranking Technique**

The researcher has used Henry Garrett’s Ranking Technique to identify the important obstacles to avail and while availing the finance from financial institution by small scale units. To perform Henry Garret’s Ranking the following formula has been used.

Formula

\[
\text{Percentage position} = \frac{100 \ (R_{ij} - 0.5)}{N_j}
\]

\(R_{ij}\) = Rank given for \(i^{th}\) item \(j^{th}\) individual

\(N_j\) = Number of items ranked by \(j^{th}\) individual

(vii) **Nonparametric-Friedman Test**

The Friedman test is a nonparametric alternative to the repeated measures of analysis of variance. It is the nonparametric equivalent of a one-sample repeated measures design or a two-way analysis of variance with one observation per cell. In Friedman tests, the null hypothesis that \(K\) related variables come from the same population. Further, Friedman’s test analysis was used in order to identify the factors influencing MSME in choosing particular bank or financial institution,
satisfaction towards preferential factors offered by banks and financial institutions,
satisfaction towards priority factors offered by banks and financial institutions,
satisfaction towards conditional factors offered by banks and financial institutions,
and level of problems faced by the borrowers.

\[ Q = \frac{12}{mk(k+1)} \sum_{j=1}^{k} R_j^2 - 3m(k + 1) \]

Where

- \( R_j^2 \) = square of the total of the ranks for group \( j \)
- \( r \) = number of subjects
- \( c \) = number of groups

1.13 FACTOR ANALYSIS

By using factor analysis, the researcher has tried to find out the important factors that drive an attitude about institutional financing to small scale units. Factor analysis is a general name denoting a class of procedures primarily used for data reduction in summarization. In a research, there may be a large number of variables, most of which are correlated and which must be reduced to manageable level. Relationship among sets of many interrelated variables are examined and represented in terms of a few underlying factor. The variables concluded in factor analysis are standardized and the factor model represented as:

\[ X_i = A_{i1}F_1 + A_{i2}F_2 + A_{i3}F_3 + \ldots + A_{im}F_m + V_iU_i \]

Where,
- \( X_i \) = \( i^{th} \) standardized variable
- \( A_{ij} \) = Standardized multiple regression co-efficient of variable on common factor \( j \)
- \( F \) = Common factor
\[ V_i = \text{Standardized regression co-efficient of variable } i \text{ on unique factor } i \]

\[ U_i = \text{The unique factor for variable } i \]

\[ m = \text{Number of common factors.} \]

The unique factors are uncorrelated with each other and with the common factor. The common factors themselves can be expressed as linear combination of the observed variables.

\[ F_i = W_{i1}X_1 + W_{i2}X_2 + \ldots \ldots \ldots W_{ik}X_k \]

Whereas,

\[ F_i = \text{Estimate of } i^{th} \text{ factor} \]

\[ W_i = \text{Weight of factor score co-efficient} \]

\[ K = \text{Number of variables} \]

1.14 LIMITATIONS OF THE STUDY

The following are the limitations of the study.

a. The geographical coverage of the study is restricted only to Karnataka state and hence, the results of the study cannot be generalized in its original form to other parts of the country.

b. The study is confined only to the formal public and private sector financial institution.

c. As the problems associated in availing credit from financial institutions by the small scale units differ state to state, the results of the study may not be generalized.
1.15 CHAPTER SCHEME

The First chapter of the thesis consists of Introduction and Design of the study. It includes introduction, statement of the problem, scope of the study, objectives, hypothesis, methodology, sampling design, collection of data, data processing, framework of analysis, limitations of the study and chapter scheme.

The Second chapter deals with the review of previous studies relating to the small scale units, financing to the small scale units, problems on availing credit facility from the financial institutions and research gap. Further profile of the sample small scale units also presented.

The Third chapter deals with an overview of small scale units’ performance in India and financing schemes available to the small scale units in India and particularly in Karnataka.

The Fourth chapter deals with the amount of financing to small scale units, Impact of institutional financing on small scale units’ and problems associated with availing credit from financial institutions.

The Fifth chapter deals with the impact of loan on performance of small scale units and small scale units owners attitude towards institutional financing.

The sixth and last chapter deals with the summary of findings, suggestions for promoting better small scale units financing schemes and mitigating problems associated with this regard, scope for further study and conclusion.
End Notes

