Chapter II

Review of Literature
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2.1 INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have been unable to achieve the competitiveness that would allow them to drive the manufacturing sector and overall economic growth, employment and poverty reduction. This is because of their lack of awareness of the market and resources, as well as the problems that MSMEs face in assessing adequate financing and business development services. Bankers are reluctant to lend to MSME Units because of the high transactions costs and perceived risks of lending in the face of insufficient credit information, inadequate credit appraisal and risk management skills, poor repayment records and low market credibility of MSMEs.

The relationship between a bank and its MSME customers is not a one-time affair, but a relatively permanent and enduring one, which requires to be nurtured with good quality of service. The focus of this study is identifying SERVQUAL of Public Sector Banks and financial implications of MSME entrepreneurs, which massively influence the overall development of a competitiveness of Small and Medium Enterprises Sector in India.

This research work provides a comprehensive review of the literature relative to the measurement of service quality and the relationship of service quality to its component parts. The area of the study include a general model of service quality from the SERVQUAL assessment, service quality, and relationship among perceived elements of service quality, satisfaction, perception of PSBs, and loyalty. Besides, each relationship between the variables is constructed and presented with the Parasuraman model. A brief idea of some of the studies conducted and articles published in relation to the research work are given in this chapter.

2.2 RESEARCH IN INDIA

Nambar (1977) in his article entitled “Financing of Priority Sector”, points out that the role of commercial banks in the Small Scale Industries (SSI) sectors is not confined merely to the provision of finance. They have to evaluate the feasibility of the
project and assist the entrepreneurs to select the right type of project. He also emphasizes the need for proper co-ordination between government agencies and banks for better results in the development of priority sectors.

**Murthy (1980)** in his thesis entitled “Financing of SSI in Rayalaseema”, points out that though the problem of SSI is a multi-dimensional one, it is revolving around the availability of adequate finance, more so with working capital. Unless the banks lend themselves they cannot move hand with SSI in solving a problem sympathetically as a friend, philosopher, and guide for the much talked about rural industrialization, balanced regional development etc.

**Agarwal (1987)** in his article entitled “Bank Financing of Small-Scale Industries in India”, defines that the Indian banking system has failed extent appropriate amount of loan to SSIs. He is of the opinion that banking institution should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.

**Jain (1990)** in his article entitled “Assistance of Small Industry”, has pointed out that the institutional assistance to small business would be to set up the right type of institutions and provide infrastructure facilities to small enterprises. There is a need for a liberal and sympathetic attitude in administrating the policies of the government.

**James Manalel (1994)** in his article entitled “Role of Incentives in the Development of SSI Units in Kerala”, reports that the working of banks and financial institutions showed that the total assistance made available in Kerala for SSI units was comparatively small. The effectiveness of any incentive packages, however well designed it may be depends on the quality of the system of delivery. The state has comparable package on record, but the quality of delivery of the same was perceived by the entrepreneurs to be poor in relation to what units in others get.

**Venkateswara Rao (1995)** in his article entitled “Development of SSI”, states that the survey conducted by the RBI and the National State Insurance Corporation (NSIC) also established that the small units use capital more efficiently and the profitability of the small-scale sector is higher than that of large-scale sector. He also stresses that the role of banks to nurture the Small-Scale Industries by going beyond just providing finance.
Prasad (1995) in his article entitled “Financing Small Scale Industries: Some Recent Changes”, states that the expression of the bank credit is not only desirable but also the economic development of a country. Commercial banks have to take up the task of credit expansion on a challenging basis and should exploit the tremendous potentiality by establishing personal contact with small industrialist.

Nirmal K gupta (1995) in his article entitled “Small Industry”, states that a large number of central government organization have been stabled in the country to provide organizational, technical, financial, marketing, raw material, training and other forms of assistance required by the small scale cottage and village industries. More importantly, Industrial Development Bank of India (IDBI), National Bank for Agriculture and Rural Development (NABARD) and Small Industrial Development of India (SIDBI) are among them etc. These organizations found to have been playing very significant role in the development of small scale and cottage industries in particular through financial assistance and consultancy services.

Sarosh Bana (2000) in his article entitled “India’s Small Scale Sector”, states that, according to the Small Industries Development Bank of India (SIDBI) SSI accounts for as much as 96 per cent of India’s industrial units, 40 per cent of the output in the manufacturing sector and 35 per cent of the exporters apart from employing over 17 million people. Importantly, this sector has also spurred a new generation of entrepreneurs and opened up new lines of production besides providing vital ancillary inputs for the organized sector. He also points out that SIDBI believes that their service for MSMEs go much beyond than just lending money.

Basheer Ahmed (2000) in his article entitled “Sickness of SSI”, states that one of the functions of DIC (District Industrial Centre) is to help the entrepreneurs in providing greater financial assistance to SSI units. In providing financial assistance to the units, DICs are supported to liaise with public sector banks and other government department and agencies. It is found that a few members approached the DIC to get financial assistance.

Sridhar Krishna (2001) in his article entitled “Impact of Small Scale Industries”, states one of the main functions of the DIC is to give provisional and permanent registration to industrial units not only as legal requirements but also for keeping
structural development which enables the entrepreneurs to avail themselves of the various incentives, concession and other benefits from public sector banks related to the development of SSI.

Sundar et al. (2001) in their article entitled “The Role of Small Industries Development Bank of India (SIDBI) in Financing Small Scale Industries”, states that, the role of Small Industries Development Bank of India (SIDBI) in providing financial assistance is generally commendable both in terms of number of schemes sanctioned and the quantum of loans disbursed over a period of eight years. The bank is mainly financing to small-scale industries through “refinance” and “bills financing” schemes.

Ramachandra (2001) in his article entitled “Reviving Sick Units”, has examined the reviving the sick Small and Medium Enterprises (SMEs) in various aspects, such as providing technology, management training, skilled labour, export promotion and giving finance. The root cause for all the above problems is the financial problem. The public sector banks should provide sufficient amount on easy disbursal system to promote the SMEs. The research focuses more on the credit facility awareness and availability of several schemes for SMEs.

Nalsamma Antony (2002) in her article entitled “ The Prospects and Growth of Small Scale Industries in India - An Overview”, states that the SSI units were born and brought up in problems, because of shortage of capital, lack of knowhow, inadequate marketing potentially etc. Most of the problems were due to inherited weaknesses. In spite of several initial problems, they are promoted and developed keeping in view of the socio-economic benefits.

In addition, promotion of SSI sector requires institutional assistance from various sources and only when these sources provide not only adequate finance but also granting the funds timely without executing more formulation to enable SSIs to develop better and faster.

Raju (2002) in his article entitled “Small Scale Industries in the Liberalized Era Beg for Attention”, states that the SME definition centres round the small-scale industries in the absence of a clearly defined medium industry sector in India. A review of the policy, laws and the regulatory and institutional framework has been done in sufficient detail with a view to highlighting the fact that the SSIs in India require globally compatible facilitation in order to be competitive both domestically and internationally.
The author upholds that easy and adequate institutional finance support is a necessary but not sufficient condition for the growth of this dynamic and vibrant sector. He envisages a clear role for the small industry associations recognized because of well-defined criteria. He argues for a quick enactment of a comprehensive enabling law for the sector and for restructuring the office of the DC-SSI, to attain the envisaged competitiveness.

**Jaya sing (2003)** in his article entitled “Small Industries, Big scope”, states that credit is the main area which most of the entrepreneurs find it challenging. Banks have to tune policies and services in consonance with needs of small industries. He also points out that the government of India has constituted a national award for banks to motivate them for providing financial assistance.

**Edvin Gnanadas (2003)** in his article entitled “Marketing Performance of SSIs Under Global Environment - A Difficult Task?” examines marketing performance of SSIs under global environment by taking sample of 250 SSIs. The study reveals that the governments announce some policy package aimed at enhancing competitiveness of SSIs both globally and domestically by providing easier access to credit by public sector banks. He also emphasis that active involvement of banks in social lending which requires changes in the attitude of banking personnel, efficient management of resources, improvement in work technology and ethics and proper deployment of manpower.

**Murugan et al. (2004)** in their article entitled “Small-Scale Industries Maladies - Do they be Caused by Marketing Sickness”, concludes that lack of financial resources and delay in getting assistance form banks are the main for poor marketing performance of SSIs. Hence, the banks to provide financial services and guidance effectively and this would strengthen then the bank and small-scale entrepreneurs’ relationship.

**John Thompson and Stephen Lumpkin (2004)** in their article entitled “The SMEs Financing Gap: Theory and Evidence”, points out the difficulties that SMEs experience can stem from several sources. The lack of appropriate financing mechanisms could stem from a variety of reasons, such as regulatory rigidities or gaps in the legal framework. Moreover, development economists increasingly accept the proposition that, due to monitoring difficulties such as principal/agent problems (e.g. related to the shareholder-manager relationship) and asymmetric information, suppliers of finance may rationally choose to offer an array of financial services that leaves significant
numbers of potential borrowers without access to credit. Such credit rationing is said to occur if: i) among loan applicants who appear to be identical, some receive credit while others do not; or ii) there are identifiable groups in the population that are unable to obtain credit at any price.

Owing to their inherent monitoring problems, SMEs will be at a particularly severe disadvantage relative to larger and more established firms. SMEs’ difficulty in obtaining financing will be compounded when the business environment lacks transparency, when the legal system is weak, and when monopolies are present. As well, loan originators may avoid providing financing to certain types of SMEs, in particular, start-ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns, but at a substantial risk of loss. The overall macroeconomic legal, regulatory and financial framework is the critical determinant of SMEs’ access to finance. SMEs have significant gaps in information and skills needed to access external finance. The modern market-based model of banking is more likely to work to the advantage of SMEs than highly controlled banking that is closed to foreign competition.

Rajendran (2005) in his article entitled “Global Challenges to Small Scale Industries”, points out adequate credit is still not available to small-scale industries. The credit guarantee fund created by SIDBI is not being exploited, as there are still shortcomings in the scheme. The scheme covers only loan higher than Rs.5 lakhs and below Rs.25 lakhs. He also emphasized that the RBI circular to banks on loan up to Rs.5 lakhs which does not provide for waiver of collateral as a rule will be withdrawn and superseded by Credit Guarantee Fund Scheme benefit. Hence RBI suggests that the banks provide online services to SME sectors which contain updated information and tools to SMEs in emerging markets learn how to increase productivity, efficiency and capacity, as well as improve their access to capital and new markets.

Namasivayam and Kamalakannan (2005) in their article entitled “Financing of Small Scale Industries in Rural Development”, strongly comments that more than 70 per cent of the population lives in rural India and therefore, the financial institutions should encourage and create awareness on financial literacy among the small entrepreneurs’ who are willing to start industrial units in rural area. He also points out that the scheme of service area could assure success only if the banking staff lives among the villagers, easily mixing with them and acting as real extension workers.
Jailal Saaw (2005) in his article entitled “Growth of Small Scale Industries in India”, points out that the expected growth was not there because of lot of root causes to sickness and underdevelopment in the SME sector. This article discusses about the slow growth rate of SME due to several financial problems faced by the SME segment and importance of extension services that must be made available to the SSI sectors for making proper use of bank finance. It is also desirable that banking facilities should be made available to the remotest and backward areas where bank branches do not exist.

Renu Verma (2005) in her article entitled “Performance of Small Scale Industries (Pre And Post Reform Period)”, points out a special monitoring agency would be set up to oversee that the genuine credit needs of the small scale sector are fully met. In addition solving of delayed payments to small industries by setting up of “factoring services” through Small Industries Development Bank of India (SIDBI).

Rajendhiran (2005) in his article entitled “Role of Small Industries Development Bank of India in the Development of Small Scale Sector”, strongly comments that SIDBI provides direct and indirect assistance for setting up of new projects, expansion, modernization, technology up gradation, quality improvement and export promotion. In addition, bank provides collateral free lending to improve the Small-Scale Sector.

VeenaPani (2005) in her article entitled “Strategic Repositioning of SME for Globalizing India”, stresses that the government should take steps to protect the local SME sector from the World Trade Organisation (WTO) regime. He also points inter-personal relationship, positive attitude, helping tendency and proper understanding of the entrepreneurs by the bank personnel would go a long way to improve the SME sectors in globally competitive.

Sahney (2005) in his article entitled “Banks asked to stem Industrial Sickness”, through his article, the author tries to express the need for banks intervention in the promotion of the SMEs. The officials of the banks in India are belong to middle class families and unaware of the industrial promotion and its need. Mere advice to the bankers is not helpful. This prompts the then Prime Minister Srimathi Indira Gandhi who Nationalized all private banks for the development of agricultural sector in 1971. The MSME act 2006, instigates the banks to provide the credit facilities without any hesitation to the SMEs.
Pathrose (2006) in his article entitled “SME Financing: Strategic Perspectives for Banks”, points out that the systems and procedures adopt by banks particularly with reference to documentation and accounting to be simplified. He concludes that bank should innovate internet banking, mobile banking and ATM facilities for providing adequate financial benefits to SMEs and banks personnel should act as guide, philosopher and promoter of industries.

Jayalakshmi Srikumar (2006) in her article entitled “SMEs and Global Competitiveness Strategies for Survival and Growth in the WTO Era”, points out that the SME entrepreneurs felt that the government only frames the schemes did not implement them effectively. He suggests that Industrial Liberalization and Post WTO regime has made enhancement of competitiveness crucial for the development of Small and Medium Industries. In many countries, the policies and strategies towards industrialization have been reformulated with a special focus on SMEs. The policy framework for the development of SMEs has been undergoing fast change in tune with the changing economic scenario in India like Asian Countries. He concludes that the government should ensure provision of basic infrastructure through public sector banks and conducive environment for the survival and growth of the SME Sector in the country.

Viswanatha Reddy and Himachalam (2006) in their article entitled “Entrepreneurs Perception of Financial Services”, have suggests that the financial institutions should take efforts to reduce the time gap between the submission of loan applications and sanction and disbursement of loans for the purpose of extending credit to improve the SME sector. He also emphasis that Small Scale Industries also lack adequate funds from the banks and consequently leads to shortage of working capital.

Prasad (2006) in his article entitled “Micro, Small, and Medium Enterprises Financing in India-Issues and Concerns”, concludes that the flow of institutional finance is linked with the creditworthiness of the enterprise. Small Enterprises due to their size and low capital base, generally find it difficult to satisfy the conditional lay down by the Public Sector Banks, particularly in establishing the viability of the project, meeting collateral requirements and making timely repayment of loans.

Chopra (2006) in his article entitled “Financing for the Decentralised Sector-SMEs”, points out that the financing for the SMEs in the decentralized sector.
The article widely discusses about the possible ways to finance the SMEs in the decentralized sector as agricultural based and artisan based SMEs. It was found that there is a gap between the centralized and decentralized sectors in getting the finance from the banks. The banks are very much lenient in providing loan facilities to the centralized sector.

**RajeshKr.Singh et al. (2007)** in their article entitled “Comparative study on strategies of Indian Small, Medium and Large Scale Organizations”, suggests that financial constraints faced by the small firms and reluctance to utilize the external funding are strategic obstacles that may deter an entrepreneur from using the latest technology.

**Sinhor (2007)** in his article entitled “Business Standard”, points out that the banks provide greater assistance to small and medium enterprises along with a rating system for the sector and transparency in service charges. He also points out the demands were made in the work of difficulties faced by the industry such high interest rate, insistence of collateral securities by banks, higher interest on export credit and higher transactions cost.

**Srivats (2007)** in his article entitled “SME Credit Growth of Public Sector Banks Tops 25 Per Cent”, points out that the public sector banks overall credit exposure to small and medium enterprises grew at 25.81 per cent every year targeted for this sector. Public Sector Banks in India are under intense pressure to perform in today’s volatile market place. In additions steep competitions, globalization, growing customer demand and exposure to higher credit risks are forcing the banks to find new ways of providing better customer service to improve profitability.

**Chockalingam and Sundarraj (2007)** in their article entitled “Trends in the Flow of Bank Credit to SSI Sector”, suggests that an entrepreneur of the SSI sector to submit all the required information and necessary documents at one instance for avoidance of the unnecessary delay in processing of the loan sanction decisions. He also emphasizes that providing clear instructions to the small-scale entrepreneurs before and as well as at the time of submitting their application for availing loans from the banks.

**Nambiar (2007)** in his article entitled “Financing for Priority Sectors”, conducted a research on financing for the priority sectors that paved the way for thinking strategy for financing of small scale and medium scale industries by the bank officers. The government of India through its industrial policy clearly states that the commercial
banks should give priority treatment to the SMEs. The nature of the banking officials which is not sufficient to promote the SME sector because the sector is totally neglected for the last several decades with ever increase of the Multi-National Corporations (MNCs). By enacting the MSME act 2006, the government of India clearly indicated the signal to the banking sector to provide the credit facilities to the SMEs.

**Subir Mehra (2007)** in his article entitled “Widening Options in Access”, have suggested that to service the credit requirements of the SME sector the various parameters considered by the banks are: sufficiency of cash flows of the enterprise to cover all its commitments: net worth of the business, presence of adequate collateral, track record in the given business (market standing), specific purpose that the facility is being availed for, dealings with banks and financial institutions in the past, quality of financial disclosure, including tax returns and risks involved. He also suggests that SMEs are increasingly banking with multiple institutions and exploring the innovative banking solutions being offered by the various banks.

**Balasubramanian (2007)** in his article entitled “the Expanding Role of SIDBI”, points out that the Public Sector Banks reassessed its lending strategy and brought innovation to leverage technology, revamp system and develop use more efficient credit assessment tools for faster credit dispensation. In addition, he points out that public sector banks have been advised to open at least one specialized branch in each district. The banks have been permitted to categorize their MSME general banking branches having 60 per cent or more of their advances to MSME sector, as specialized MSME branches for providing better service to entrepreneurs.

**Sobha Rani and Koteswara Rao (2008)** found in their study entitled “Financing Small Enterprises-Recent Trends”, that to bring about the change in the mind-set of banks and financial institutions to strengthen the hands of SMEs through a liberal approach for SME credit by looking at the sector as one with high potential, deserving encouragement.

**Sultan Sing (2008)** conducted a survey entitled “A Study of the Quality of Services Provided to SSI Customers by Public Sector Banks”, concludes that the relationship between a bank and its customers is not a one-time affair but a relatively permanent and enduring one, which requires to be nurtured with good quality of customer
service is almost certain to lose its business. The study also reveals that the service and satisfaction is determined by the branch’s location and design variety of services, systems and procedures, delegation and decentralization, mechanization and computerization, compliant redressal skills, attitudes and responses of the staff.

Sanjeev Mantri (Sep 2008) in his article entitled “ICICI Banks to Expects SME Advances Business to Grow by 20 Per Cent”, points out that the ICICI banks had to take up the task of credit expansion on a challenging basis and should exploit the tremendous potentiality by establishing personal contact with small industrialists. So as to reach the stipulated target of 25 per cent of their total lending going to MSME sector.

Anil Kumar (December 2008) in his article entitled “Awareness of Supporting Agencies Among Women Entrepreneurs in Small Businesses”, examines that the awareness of supporting agencies among women entrepreneurs in small business by taking a sample of 450 respondents form five states of northern India which comprises Haryana, Punjab, Rajasthan, Himachal Pradesh and Delhi. The study highlights the female business entrepreneurs were faced the problem of getting finance and started business with low capital. He also emphasises low level of awareness is responsible for less utilization of services of banks among women entrepreneurs.

Raju (2008) in his article entitled “Small and Medium Enterprises (SMEs) in India: Past, Present and Future”, conducted a study and analysed that SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. It is estimated that SMEs account for almost 90 per cent of industrial units in India and 40 per cent of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy in 1991. The present scenario of SMEs and the problems they faces like lending, marketing, license issues were discussed in detail. The Micro, Small, and Medium Enterprises (MSME) Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The article concludes some future policy framework for the sustainability of the sector.

Rani and Rao (2008) in their article entitled “Financing Small Enterprises: Recent Trends”, conducted a research that Small and Medium Enterprise sector is a vibrant and dynamic one, and an engine of growth. Financing of Micro and Small
Enterprises (MSEs), which is part of the SME sector, has been given special attention by banks and financial institutions, and it is included in priority sector lending. In spite of the special efforts, only 14.3 per cent of registered small enterprises have availed institutional credit, as per the third All India Census of Small Scale Industries of 2001-02. From 2000 to 2004, institutional credit for MSEs has shown disturbing trends, despite the high level of liquidity in the banking system and the initiatives taken by the Union Government and Reserve Bank of India (RBI). The Union Finance Ministry's directive to public sector banks is to double the credit flow to SMEs during the five-year period 2005-10. The year, 2005-06 has shown good progress in this direction. The task is to be pursued vigorously in the next four years, of which 2006-07 has been completed with encouraging performance. SMEs need special treatment through devising special instruments of credit for strengthening their competitiveness.

Torre et al. (2008) in their article entitled “Bank Involvement with SMEs: Beyond Relationship Lending”, investigates the conventional wisdom in academic and policy circles argues that, while large and foreign banks are generally not interested in serving SMEs, small and niche banks have an advantage in doing so because they can overcome SME opaqueness through relationship lending. This paper reveals that there is a gap between this view and what banks actually do. Banks perceive SMEs as a core and strategic business and seem well positioned to expand their links with SMEs. The recent intensification of bank involvement with SMEs in various emerging markets documented in this paper is neither led by small or niche banks nor highly dependent on relationship lending. Rather, all types of banks are catering to SMEs and larger, multiple-service banks have in fact a comparative advantage in offering a wide range of products and services on a large scale, using new technologies, business models, and risk management systems.

Ganeshan (2009) in his article entitled “Institutional Finance for Small-Scale Industries-An overview”, points out that the role of public sector banks in the small-scale sector is not confined merely to the provision of finance in the article. The banks have to evaluate the feasibility of the project and assist the entrepreneurs to select the right type of project. He also emphasizes that adequate and timely credit at reasonable rate of interest, without collaterals is an essential requirement of the small sector in India.
Dinesh Rai (2009) in his article entitled “MSME Reviewed the Performance of Various Schemes of KVIC”, points out that the banks for providing more facilitation and transparency in their system. He also points out that some places the managers of branches are not fully aware about schemes and guidelines, as the banks get the application from entrepreneurs. It is also necessary that many of the banks have to set up ‘core centres’ which should be extended throughout the country.

Chandrajit Benerji (2009) in his article entitled “Economic Stimulus Package Working: CII SME Survey”, points out that the initiatives being announced by the government of India and the RBI as part of the first stimulus package, the reduction in Central Value Added Tax (CENVAT) by 4 per cent, followed by interest rate cut off half of a per cent for small and one per cent for micro enterprises by the Public Sector Banks.

Mohanty (2009) in his article entitled “Global Slowdown and Management of SMEs - A Sustainable Economic Growth Approach” suggests that the Public Sector Banks to operationalize at least one SME branch in every district and centre having cluster of SME units. The study reveals that the performance competency of the SMEs can only be matched with the large scale sector by only providing timely and adequate credit by banks.

Venkat Janardhan Rao et al. (2009) points out in their article entitled “State of Small and Medium Enterprises in India”, the main challenge faced by the SMEs is access to affordable credit over a reasonable period. The finding further suggests the banks reduce the cost of loan such as rate of interest, high processing fee and legal fee.

Popli and Rao (2009) in their article entitled “Service Quality Provided by PSBs to SME Customers”, points out that the quality of customer service plays an important role, particularly in the context of growing competition and sustained business growth. The study is an attempt to ascertain the service quality provided by Public Sector Banks to Small and Medium Enterprises that play a key role in India’s economy. The major findings of the study have been that Modernization and Communication affect the services largely and there is a need of training to the staff for improvement of service to the SMEs customers. The service quality of private banks is superior to that of Public Sector Banks, majority of the respondents revealed that the credit flow to SMEs sector is not sufficient and the Government will have to initiate necessary steps for making the
required funds available easily on convenient terms. Majority of the respondents feel that the policies for SME Sector of other countries are far better from the policies of India; Delay in loan application processing due to unhelpful nature of the staff members, as claimed by the majority of the respondents. The banks usually provide finance against security and as high as 86 per cent of the respondents are of the view that the banks ask for collateral security/guarantee from a third party even where the project has been assessed as viable and primary security is adequate.

Vijaya Chitra and Poovendhiran (2009) in their article entitled on “Determining the Business Success and Failure of Small Scale Industry Units”, have suggested that small scale entrepreneurs are not getting proper financial support from banks in time because of more formalities in sanctioning loans. He also points out that the RBI should take necessary steps to motivate the small-scale entrepreneur by sanctioning loan with maximum relaxation.

Malla (2009) in his article entitled “Financing of MSMEs- Issues and Concerns”. The study reveals that the problems cited by MSME borrowers in accessing the institutional finance are insistence on collateral guarantees, limited outreach of banks, rigid approaches, and high interest and other costs, computer documentation, lack of supporting business development services.

Fatima Veghlom (2009) in his article entitled “Understanding Bank-SME Relationships: The Influence of Adaptation and Fairness on Customer Satisfaction”. A sample of 45 interviews was conducted with SME owners and five with bank representatives from the three banks. The study highlights that banks are employing fairness in their strategy and encouraged employees to engage in relational interaction with their SME customers and as a result which generated higher customer satisfaction. He also pointed out that the importance for banks to treat their SME customers in an adaptable and fair manner.

Popli and Rao (2009) in their article entitled “An Empirical Study of SMEs in Electronics Industry in India: Retrospect & Prospects in Post WTO Era”, conducted a study and analysed that Small and Medium Enterprises (SME) have been globally recognized as vital components of a domestic economy and major contributors to employment generation in a country, regardless of global barriers. SMEs form the
lifeblood of any vibrant economy. In an emerging economy like India, SMEs have a significant socio-economic role to ensure overall development of the nation. The Indian Electronic Industry is undergoing transformation due to the new economic policy and business environment in the post WTO regime. This paper examines the problems, strategies for investments, competences development, technological up gradation, quality improvement, Government Policies, Equity participation by MNCs and overall improvement of this sector in the post WTO regime. The study was conducted by using data acquired from an extensive survey of Indian SMEs in the Textile Sector and from the experienced Bankers or Officials and Policy makers of Government of India. The key findings of the study are that lack of quality consciousness, growth conducive environment, inadequate government support, and difficulties in raising funds from market. Further, the study highlights the need to upgrade technology in the Indian Electronic SME Sector and developing a strong and supportive environment. The perusal of literature reveals that Small and Medium enterprises face many problems, and inadequate financing is the major one.

Ram Jass Yadav (2010) in his article entitled “SME-Emerging Sector for Bank Finance”, have suggested that the MSME cluster has been introduced by adopting 4Cs approach (Customer focus, Cost Control, Cross sell and Contain risk) with a view to the diverse needs of the MSME sector through extending banking services to the cluster. The study also reveals that the Banking Codes and Standards Board of India (BCSBI) have formulated a code of Bank’s commitment to micro and small enterprises. It is a voluntary code provides protection to MSMEs and explains how the bankers are expected to deal with the sector for day to day operations and to cater to financial requirements of the MSMEs. This code has been adopted almost all public sector banks.

Haseeb Drabu (2010) in his article entitled “Banks Need to Change Lending Model to Promote SMEs”, points out that the Public Sector Banks need to change lending model to promote SMEs’. As a result, he urges the banks to make conscious effort to increase the quality of loan portfolio through proper appraisal of proposal and effective post disbursal monitoring.

Pandya et al. (2010) examines assessment of entrepreneurship policies by taking a sample of 120 SMEs and an article entitled “Assessment of Entrepreneurship Policies:
A Case of Credit Guarantee Scheme in India”. The study reveals that the performances of loan guarantee scheme in India. For entrepreneurs without having any own collateral, a loan guarantee scheme allows them to access bank loans with the state of act as a guarantor.

**CII survey (2010)** report entitled “Infrastructure Development Key to MSME Growth and Development” reveals that high cost of credit is the most important to the growth and development of MSMEs. He also points out lack of availability of credit is a crucial factor inhibiting the growth and development of MSMEs.

**Azad (2010)** in his article entitled “Grooming SMEs in Booming ASEAN”, points the needed for support and extension services in accelerating SME growth such support and extension services include market intelligence, marketing services, modernization, technology upgradation, quality testing etc. He is also suggested that the available institutional network in India have to be provided with support and extension services.

**Jagapathi Rao (2010)** in his article entitled “A Study on Socio Economic Background of Entrepreneurs in Small Scale Industries”, points out that the awareness is to be created among the scheduled caste and schedule tribe entrepreneurs by providing finance to start a business. He further suggests that the aim of banking policy should be to uplift the under privileged class of the society in rural India from subsistence existence to surplus existence.

**Venkatesh Rajagopal (2010)** council on the occasion of SME summit organized by CII jointly with the Ministry of MSME points out that providing procurement incentives to help the MSME sector become more competitive. Establishment of SME exchange, simplification of labour laws and the creation of uniform credit rating format will facilitate credit availability for the MSMEs.

**Malla (2010)**, have suggested in an article entitled “Strategic Support to MSMEs”, points out that the bank will continue to channel larger credit flow to Micro enterprises, especially the “Missing Middle” segment. Moreover, the banks should reduce the transaction cost at the same time improve the credit flow to micro enterprises in the clusters.

**Kanishka Gupta (2011)** in an article entitled “MSMEs Cash-Strapped”, examined that the main problem of MSMEs are accessing adequate and timely financing in competitive terms particularly long-term loans, which have been exacerbates by the current global finance.
Ramesh Datla (2011) suggests in his article entitled “MSMEs Business Confidence Declines” that an allocation of Rs.5000 crores in the Union Budget 2011-12 to SIDBI for refinancing incremental lending by banks to MSMEs enterprises. In addition, he suggests that credit cost for working capital and capacity expansion and credit availability are critical for the SMEs.

John Manohar and Ravindra (2011) in their article entitled “Perception and Receptivity of Branding by Banks by Customers of Small Scale Industries in Bangalore”, by taking 96 sample, reveals that how Small scale enterprises perceive the value and brand of the bank which the SSIs are using for the financial services of their business. The most important factors for customer satisfaction are related to the awareness, associations, and attitude towards the brand of the bank. According to the findings of this research, a personal relationship with the customers is the most important factor. However, the results in this survey shows that the most important factor when it comes to brand association is the employees, and the relation created between the company and the employees at the bank.

Arun Thukral (2011) in his article entitled “SMEs to Know the Borrower’s Credit Worthiness”, suggests that availability of credit is the biggest problem in the Small and Medium enterprises across the country. This problem is widely discussed on all the platforms and corrective measures have been formulated for policy guidelines. Many banks are striving to ensure credit flow to the larger segment. Still nothing could have taken place significantly. Reality is that only paper achievements are being shown in the financial results or annual books of these institutions. He concludes that the banks offer credit information services to its customer’s base that includes individual and businesses.

Gaurav Sehgal and Ashok Aima (2011) in their article entitled “Microfinance for SMEs: Prospects, Challenges and Implication”, reveals that due to lack of collateral and financial data, SMEs have difficulties in raising funds from commercial banks. Meanwhile, SMEs face a quandary in that microfinance loans are not enough to meet their capital demand. As a result, they are forced to raise funds from informal finance such as the loans shark or borrowings from relatives. He also suggests that banks supports well-defined credit analysis techniques and those techniques supporting SMEs
for long time. Instead of focusing on only financial figures, the banks should understand actual conditions of SMEs by a careful look at each customer, and deal their operations systematically and efficiently.

**Krishnaveni Muthiah and Sudha Venkates (2012)** in their article entitled “A Study on Barriers Affecting the Growth of Small Scale Industries in India”, identified that the firms which are not interested in doing the business for long have not registered their firms. Consequently, firms need to know the advantages of registering their firms to avail facilities such as external credit, government orders and other services offered by the SMEs supporting institutions. Firms can change their legal form to partnership or private limited companies; this will generate more funds and more hands to work. Initially the funds can be generated through relatives and friends, as the business improves they can easily avail bank loans. By improving the sales activities, efficiently limiting the credit period and utilizing the production capacity to the maximum level, the financial position will improve substantially.

**Sahila and Chaudry (2012)** in their article entitled “Appraisal of Quality of Services to Exporters in PSBs”, points out that, gaps arise and get widened due to mismatched levels of perception between the bankers and customers. It is to be appreciated that customer service is not about dealing with the people of logic but with people of emotions. It would, therefore, be worthwhile for banks to educate the customers about the various banking schemes, systems, and procedures of the banks, rights and duties of the customers, which can play a vital role in evolving healthy bank-customers relationship. With the growing awareness gained by the customer, he expects convenience in dealing with the bank. Therefore, technology can be gainfully employed. On-line, Real Time Banking, Anytime Banking, Single Window Banking, Electronic Fund Transfer, Automated Teller Machines, Tele-banking etc. are some such innovations aimed at providing the customers with convenience and flexibility.

**Suresh (2012)** in his article entitled “Study on Assessing the Performance of Micro, Small and Medium Enterprise of Canara Bank”, suggests that the MSMEs are facing problems in obtaining finance for marketing, technology, research and development, infrastructure etc, because they cannot afford high investments. To reduce these problems of MSMEs the banks provide various schemes and new products for
MSME. The bank provides various facilities for both manufacturing and service sector. Financial infrastructure needs to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand, including the requirements of technological transformation and the banks are looking at the MSME sector as a commercially viable sector. RBI's initiative to further smoothen the flow of credit to SSIs, which primarily depend on finance from banks and other financial institutions. Under the proposed scheme, banks will be encouraged to establish mechanisms for better coordination between their branches and those of SIDBI that are located in the 50 clusters identified by the Ministry of Small Scale Industries. He also suggests that the performance of Micro, Small and Medium enterprises show the trend is fluctuating in the performance of MSME schemes of Canara Bank. The bank always caters to small enterprises and when the small enterprises turned into medium enterprises, the bank’s role seemed to vanish. This has made it tough to target the same companies again as the scope of Canara Bank is limited to small enterprises.

2.3 RESEARCH ABROAD

Stiglitz and Weiss (1981) in their article entitled “Credit Rationing in Markets with Imperfect Information”, reveals that financial barriers affecting Small and Medium enterprises include: high cost of credit, relating high bank charges and fees, high collateral requirements and a lack of outside equity and venture capital. It is further stated that information asymmetries between lenders and borrowers make it hard for banks to determine the real value of a project and lead to credit rationing.

Dias (1990) in a book entitled “Developing Rural Entrepreneurship”, found that nearly 90 per cent of the Srilankan rural enterprises faced the problem of lack of capital or lack of access to institutional finance and credit. A major obstacle in borrowing money for commercial banks or other financial institutions were the lack of collateral and lack of good accounting system.

Storey (1994) in his article entitled “Understanding the Small Business Sector”, reveals that overview of bank lending to small and medium sized enterprises highlights a number of assumptions that underpin the research literature, asymmetric information, agency issues, higher objective risk in lending to small firms, costly monitoring, competing banks,
the variability of entrepreneurs with regard to their ability, honesty and motivation, and the view that entrepreneurs gain from increased project valuation which banks gain only from repayment.

**Poussion (1996)** in his article entitled “Corporate Failure: The Lesson to be Learnt”, highlights the main cause of business failure is financial weakness. Financial weakness often stems from the lack of understanding of the financial impact of key strategic decisions, inadequate financing, too much debt, little or no debt management and a wrong finance mix. Therefore, the banks help the small business owners to providing personnel service beyond over the lending.

**Mester (1997)** in his article entitled “What’s the Point of Credit Scoring?” indicates banks have discovered that business owner characteristics rather than business characteristics are better predictors of commercial business loan performance.

**Judith Madill (January 2002)** has conducted a study on “Determinants of SME Owners’ Satisfaction with their Banking Relationships: A Canadian Study”, the primary goal of their empirical research study was to identify key drivers of SME satisfaction related to a variety of aspects of the bank with SME relationship. The research used data from 3,190 interviews with key informants identified as the person who was most responsible for financial and banking decisions in Canadian SMEs. In addition, this research focuses on how SME overall satisfaction is affected by the account manager’s management of the bank, branch staff’s management of the bank, and policies. All three drivers were significantly and strongly related to SME satisfaction with the bank with which they had their primary relationship.

**Nazrul Islam and Ezaz Ahmed (2005)** in their article entitled “A measurement of Customer Service Quality of Banks in Dhaka City of Bangladesh “, point out that the most important service quality factor of banks is personal attention to the clients, followed by error-free records, safety and in transactions and tangible physical facilities of the bank. He also observes perceived service quality factors have significant relationship with overall service quality of bank.

**John Watson (2005)** in his article entitled “SME Funding Issues” conducted a survey in western Australia and targeted senior managers of Small, medium enterprises.
He found that procedures to obtain funding form a bank are too complicated. He also emphasis that the need for proper coordination between SME owners and banks for better results.

Earl Jobling et al. (2009) in their article entitled “Service Quality Attributes SME’s Desire in their Choice and Retention of A Bank: An Australian Perspective”, A qualitative research method adopted for the purposes of study by taking convenience sample of twenty-three practicing accounts. In the article, he examines SME’s are desirous of a range of service quality attributes from their banking partners, these attributes can be categorized under five broad themes, namely employee capabilities, credit accommodation, price competitiveness, accessibility, and internet banking. This study reveals that banks operating in Australia stand to benefit from the development and management of SME customer relationships. He also suggests that offers marketing implications for banks that are providing or planning to provide services to the SME customer segment in Australia.

Mercieca and Scheack (2009) in their article entitled “Bank Market Structure, Competition and SME Financing Relationships in European Regions”, conducted research and analyzed that how the concentration and competition in the European banking sector affects lending relationships between small and medium sized enterprises (SMEs) and their banks. Empirical evidence suggests that concentration and competition capture different characteristics of banking systems. Using a unique dataset on SMEs from selected European regions empirically investigate the impact of increasing concentration and competition on the number of lending relationships maintained by SMEs. They find that competition has a positive effect on the number of lending relationships, weak evidence that concentration reduces the number of banking relationships and weak persistent evidence that they tend to offset each other.

Obamuy (2010) in his article entitled “Firms Performance and Lending Constraints in Nigeria”. In the article, he examines how banks lending affects firm’s performance by taking a sample of 260 SMEs from the ten local governments in Onto State, Nigeria. The study reveals that firms were reluctant to obtain loans from the banks because of high interest rate and stringent lending policies. The banks were also
constrained due to the poor creditworthiness of the firms. The government should formulate policies that will compel banks to relax their stringent regulations, which discourage borrowings. The findings further suggest that the firms that received bank loans performed better than those without loans.

Norudin Mansor et al. (2012) in their article entitled “Determinants of Awareness on Islamic Financial Institution E-Banking among Malaysian SMEs”, point out those three factors such as promotion, technology and service quality as independent variable. These are believed to be undertaking the premier role towards the awareness of this sector as measured by applications of e-banking in daily transaction. It is further assumed that the application also will enhance the effectiveness and efficiency in managing their business. Using a sample of 358 respondents, questionnaires were collected and analysed. The finding further demonstrates that variables such as promotion, technology and service quality almost similar in terms of their relationship towards the creation of awareness among the SMEs.

Pietro Calice et al. (2012) in his article entitled “Bank Financing to Small and Medium Enterprises in East Africa”, Findings of a Survey in Kenya, Tanzania, Uganda and Zambia” point out that the SME segment is a strategic priority for the banks in the region. SMEs are considered a profitable business prospect and provide an important opportunity for cross selling. Banks consider that the SME lending market is large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining banks’ further engagement with the SME segment, including SME-related factors, macroeconomic factors, business regulation, and the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation, and some bank-specific factors. However, banks have adapted to their environment and developed mechanisms to cope with it through innovation and differentiation. He concludes that this trend should be supported and encouraged through reforms to soften the negative impact of those obstacles, which are hindering the further involvement of banks with SMEs.
2.4 CONCLUSION

This chapter has provided the literature which have been conducted over the years reveals that Micro, Small and Medium (MSMEs), are at the receiving end of multiple problems, in particular, inadequate financing and very limited patronage from the government. A rich literature has been conducted in India regarding to service quality of PSBs, reasons for preferring public sector banks, perception of service quality and awareness and satisfactions of the entrepreneurs. However, very few studies have been conducted in foreign countries, with regard to SME funding. In the absence of data, the reason is the countries economical system differs i.e. Capitalism or mixed economy.

Given this background, this research work has reviewed many literature works to identify the research gap and measure the service quality of the PSBs to the SME customers by the Public Sector Banks.

The scope of MSMEs and role of Public sector Banks (PSBs) are dealt with the chapter three.
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