

A Study on The Lending Relationship on Repayment Performance of MSMEs Loan Borrowers

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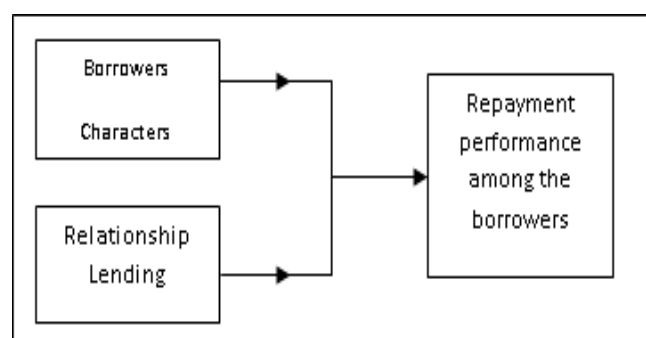
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Abstract - India, as a developing economy, even after nearly five decades of planning, still has a long way to go to catch up with the leading developed economies of the world. The goal may be distant but surely, the time required to reach it can be cut down by accelerating the pace of development. One way of doing this is by the promotion of industrial and business ventures created by the initiative and enterprise of the entrepreneur class. On the whole, there is a positive linkage between an economy's prosperity and the growth of entrepreneurship. The recent focus of MSME'S is to provide medium and long-term loans for Investment projects, which are engaged in agriculture, agro processing and manufacturing Industries , service sectors preferably export focused. Though credit operation of commercial banks shows a dramatic increase in loan approval and disbursal there are non-performing loans, which resulted from clients Default, which in turn come about from lack of follow-up, market problems, environmental Problems, credit policy of the commercial banks.. This raises a question on how Can commercial banks increase the repayment performance of its borrowers. This in turn entails a question on what are the factors that determine successful loan repayment performance of borrowers. It is thus important to investigate and provide empirical evidence on factors that determine MSME'S successful loan repayment performance of borrowers in commercial banks. So that we can understand the reasons behind successful loan repayment performance and hence provide some guide lines to increase probability of MSME'S successful loan repayment. Towards this end, we investigate determinants of MSME'S successful loan repayment performance of borrowers in commercial banks.

Key Words: MSME, Loan Borrowers, Borrowers Behaviour, Lending Relationship, Repayment Performance.

I. INTRODUCTION

The repayment performance of the borrowers is one of important aspects which determine the non-performing assets of the banks. Because of poor repayment behaviour under various scheme loans, the non-performing assets of the banks are winding up. Hence it is essential to discuss the repayment behaviour and its determinants for future policy implications. Even though the determinants are too many, the present study includes only borrower's characters and relationship lending as the determinants of the present study.



Borrower

A person that has applied, met specific requirements, and received a monetary loan from a lender. The individual initiating the request signs a promissory note agreeing to pay the lien holder back during a specified timeframe for the entire amount plus any additional fees. The borrower is legally responsible for repayment of the loan and is subject to any penalties for not repaying the loan back based on the lending terms agreed upon.

Lending Relationship

In finance, securities lending or stock lending refers to the lending of securities by one party to another. The terms of the loan will be governed by a "Securities Lending Agreement" which requires that the borrower provides the lender with collateral, in the form of cash or non-cash securities, of value equal to or greater than the loaned securities plus agreed upon margin. Non-cash refers to the subset of collateral that is not pure cash, including equities, government bonds, convertible bonds, corporate bonds, and other products. The agreement is a contract enforceable

under relevant law, which is often specified in the agreement.

Repayment Performance

Repayment is the act of paying back money previously borrowed from a lender. Repayment usually takes the form of periodic payments that normally include part principal plus interest in each payment. Failure to keep up with repayments of debt can force a person to declare bankruptcy and severely affect his credit rating performance, in the performing arts, generally comprises an event in which a performer or group of performers present one or more works of art to an audience. Usually the performers participate in rehearsals beforehand. Afterwards audience members often applaud.

II. REVIEW OF LITERATURE

Ramanujam V, Mohanraj (2015) stated the article titled on Entrepreneurial Performance and its Linkage With its Antecedents in Erode District, Tamil Nadu” for the study concludes that the level of entrepreneurial performance of the young respondents is higher than that among the elder respondents. The important discriminant components of the entrepreneurial performance among the young and elder respondents are quality enhancement and financial respectively. The personality traits namely imitativeness, self confidence and risk taking enrich the performance of entrepreneurs. The entrepreneurial intention and enterprise involvement among the respondents significantly increase the level of performance among entrepreneurs. The highly motivating factors to enrich the performance among them are income and security whereas the entrepreneurial orientations are innovation and risk orientation. The entrepreneurial skill especially professional and opportunity skills among the entrepreneurs enrich their performance whereas the entrepreneurial behaviors especially scientific management and networks influence more on the entrepreneurial performance among the respondents. The antecedents among the young respondents influence more on the level entrepreneurial performance among them compared to elder respondents. This study shows the relative importance of all antecedents of entrepreneurial that performance in the determination of their performance among the entrepreneurs.

Ramanujam V, Arun Vidhya K (2014) on their article titled on “A Study on Impact of Critical Characteristic on the Career Success of Micro Small Medium Enterprises Entrepreneurs” discovered that the entrepreneurs and entrepreneurship are significantly correlated with the economic development of the country. Entrepreneurs cannot easily succeed in doing successful business venture without facing risk that arises from internal and external conditions, this study has been undertaken in order to identify the critical characteristics contributing to the success. The personality characteristics of like need for

achievement, need for economy, risk tolerance are the main influencing characteristics for the success of business. The career success is concluded based on entrepreneurial judgment of their own success evaluated against personal standards, age aspiration, and views of significant others. This study is to identify the international characteristics factors influencing the success of small scale entrepreneurs with reference to Coimbatore district. This study suggests new venture small scale entrepreneurs to develop such qualities to succeed in business.

Jemal (2013) noticed that education, income, loan supervision, sustainability repayment period, availability of other credit sources and livestock have a significant impact on the repayment performance among the famous.

Mohd Noor Shariff (2010), in his paper tried to review the determinants of repayment performances in microcredit programs which he divided the study into four factors namely borrower characteristics, firm characteristics, loan characteristics and lender characteristics.

Berhanu (2005) studied on the determinants of loan repayment performance are land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities.

In contrast, **Hulme & Mosley (1996)** argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorize the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer people and the features include maximum loan ceilings and high interest rate. Screening methods are used to screen out bad borrowers.

III. STATEMENT OF THE PROBLEM

Loan repayment in banks has been receiving increasing global focus in Commercial Banks. The primary objective of these banks is to provide financial services (credit and saving) to the society in order to relieve financial constraints and help alleviate poverty. Each bank tries to maximize its repayment performance through lending relationship. The bank also has done a lot in setting determinants to ensure that the loans are repaid back in time without clashing with the clients so as to maintain the good relation between the client and the bank (Mboya, Kevin M, 2011).

However, evidence has shown that, despite the efforts done by commercial banks in ensuring that all loans are recovered on time, a substantial amount of these loans remain un-recovered. This problem does not only endanger the achievement of objectives, but also threaten bank's sustainability and efficiency.

These results stimulated this research to investigate and provide empirical evidences on the determinants of the loan repayment in commercial banks so that we can better understand the common reasons for poor loan repayment and hence provide some guidelines to increase the probability of success and good performance of lending program (in terms of repayment of the loan) carried out by the commercial banks

IV. OBJECTIVE OF THE STUDY

The general objective of this study was to analyze and identify the major determinants of lending behaviour among respondents in commercial banks

- 1) To analyze the lending relationship on their commercial banks.
- 2) To examine the impact of lending relationship among the borrowers and banks.

V. RESEARCH METHODOLOGY

The present study is completely based on the primary data, a special care was taken to design the questionnaire. The questionnaire consists of 3 parts. The first part includes the profile of borrowers and their borrowing character and relationship lending. The third part of the questionnaire focuses on the repayment performance among the res. The relevant variables in the generated concepts were drawn from the reviews. A pilot study was conducted among 10

each in micro, small and medium entrepreneurs at Sivakasi, since the scholars native is Sivakasi. Based on their feedback, certain modifications, additions, deletion and simplifications were carried out.

The population of the study is the total number of registered MSME'S with bank loans at the DIC of Virudhunagar. In total, there are 1668 units which consists of 1469, 112 and 87 units under the category of micro, small and medium enterprises. All these are included for the study. The sample size in each category was determined with the help of $n = N/Ne^2 + 1$. It came to 315, 88 and 71 micro, small and medium units respectively. The stratified proportionate sampling was adopted to distribute the samples in each strata covers the taluks and type of units. The random sampling was adopted to select the samples in each strata out of the allotted samples. The addresses of the sample units were collected from the DIC of Virudhunagar.

The questionnaire was sent though post to all sampled units (474 units). Out of the 474, only 181 units filled up the questionnaire at 100 per cent and returned to the scholar address. Hence, the final sample included for the study came to 181 units which consist of 123 micro, 35 small and 23 medium enterprises. The data collected from the units were processed with the help of appropriate statistical tools.

VI. ANALYSIS AND INTERPRETATION

a) Relationship Lending (RL) among the respondents

The relationship lending (RL) is included as one of the important determinants of repayment performance among the respondents in the present study. It is measured with the help of 28 variables. The respondents are asked to rate these 28 variables at five point scale according to their order of existence. The mean scores of the first 14 variables in RL among the three group of respondents have been computed separately along with it's 'F' statistics. The results are shown in Table 1.

TABLE 1 Respondents' view on variables in Relationship Lending (RL)

Sl. No.	Variables in RL	Mean scores among respondents in			F-Statistics
		Micro	Small	Medium	
1.	Confidence with banks	2.5154	3.0227	3.5088	3.5686*
2.	Sense of belonging towards banks	2.6445	3.1788	3.7889	3.3089*
3.	Intention of using the bank's services	2.6448	3.2679	3.8089	3.4041*
4.	Commitment towards banks	2.6089	3.2808	3.6971	3.1179*
5.	Trust on bank and bank staffs	2.4033	2.9969	3.3961	3.1142*
6.	Reliability on the bank services	2.5049	2.9842	3.4086	3.2086*
7.	Assurance on the bank promises	2.6024	2.9909	3.3088	3.1884*
8.	Emphasized services offered by banks	2.5089	2.6684	3.5441	3.2493*
9.	Honest in issues	2.5417	2.9817	3.2779	3.0808*
10.	Openness of the bank staffs	2.5668	3.1778	3.6888	3.3084*
11.	Commitment to disburse the loan	2.5144	3.3886	3.8283	3.2464*
12.	Commitment to fulfill the expectation	2.5088	3.1177	3.6089	3.0173*
13.	Access to information	3.1141	3.3084	3.5886	1.8969
14.	Access to bank staffs	3.0996	3.5084	3.6177	2.4546

*Significant at five per cent level.

The highly existing variables in RL among the respondents in micro enterprises are access to information and bank staffs since it's mean scores are 3.1141 and 3.0996 respectively. Among the respondents in small enterprises, these two are access to bank

staffs and commitment to disburse the loan since it's mean scores are 3.5184 and 3.3886 respectively. Among the respondents in medium enterprises, these two variables are intention of using the bank's services and commitment to disburse the loan since it's mean scores are 3.8089 and 3.8283 respectively. Regarding the level of existence, the significant difference among the three group of respondents have been noticed in the case of 12 out of first fourteen variables in RL since it's 'F' statistics are significant at five per cent level.

The mean score of last 14 variables in RL among the respondents in micro, small and medium enterprises have been computed along with it's 'F' statistics. The results are given in Table 2

TABLE 2 - Respondents' view on variables in Relationship Lending (RL)

Sl. No.	Variables in RL	Mean scores among respondents in			F-Statistics
		Micro	Small	Medium	
15.	Sensitive to my needs	2.5088	2.9969	3.6568	3.2673*
16.	Professionalized services	2.6088	2.9969	3.5117	3.0882*
17.	Satisfactory answers to my queries	2.4664	2.9048	3.5679	3.1088*
18.	Commitment to process & disburse loan	2.5144	2.9908	3.5989	3.1089*
19.	Integrity	2.6117	3.2089	3.6089	3.1193*
20.	Access to the services	2.8184	3.3084	3.4117	2.0996
21.	Commitment towards the jobs	2.6773	3.1173	3.6909	3.0886*
22.	Deliver the promised services	2.5997	3.1183	3.7028	3.0967*
23.	Attend the queries	2.5656	2.9088	3.3143	2.6694
24.	Understand personal needs and problems	2.3388	3.0664	3.6689	3.2996*
25.	Commitment to provide information	2.6036	3.2144	3.7704	3.2087*
26.	Trust on loan appraisal system	2.6778	3.2739	3.8144	3.3896*
27.	Access to settle grievances	2.6089	3.1173	3.2676	2.0441
28.	Access to management	2.5770	3.0971	3.3886	2.4419

*Significant at five per cent level.

The highly existing variables in RL among the respondents in micro enterprises are access to the services and trust on loan appraisal process since its mean scores are 2.8184 and 2.6778 respectively. Among the respondents in small enterprises, these two variables are access to the services and trust on loan appraisal process since it's mean scores are 3.3084 and 3.2739 respectively. Among the respondents in medium enterprises, these two variables are trust on loan appraisal process and commitment to provide information since its mean scores are 3.8144 and 3.7704 respectively. Regarding the level of existence of variables in RL, the significant difference among the three group of respondents have been noticed in the case of 10 out of last 14 variables in since its 'F' statistics are significant at five per cent level.

Impact of relationship lending on the repayment performance among the respondents

The relationship lending may have its own influence on the repayment performance among the respondents; the present study has made an attempt to examine it with the help of multiple regression analysis. The fitted regression model is:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$$

Whereas

Y – Score on repayment performance

X_1 – Score on trust

X_2 – Score on commitment

X_3 – Score on access

X_4 – Score on co-operative concern

b_1, b_2, b_3, b_4 – regression co-efficient of independent variables

a – intercept and

e – error term

The impact of relationship lending on the repayment performance among the respondents in micro, small and medium enterprises have been computed separately along with the analysis on pooled data. The results are presented in Table 3.

TABLE 3 Impact of Relationship Lending on Repayment Performance

Sl. No.	Relationship Lending	Regression co-efficient among respondents in			
		Micro	Small	Medium	Pooled data
1	Trust	0.0941	0.1393*	0.1804*	0.1411*
2.	Commitment	0.1024	0.0994	0.1911*	0.1133
3.	Access	0.1345*	0.1089	0.2408*	0.1709*
4.	Co-operative concern	0.1172	0.1789*	0.2044*	0.1842*
	Constant	0.2733	0.4903	0.7032	0.6247

	R ²	0.6547	0.7394	0.7949	0.8171
	F-Statistics	7.3803*	7.9089*	8.9088*	8.9892*

*Significant at five per cent level.

The significantly influencing important factors in relationship lending on the repayment performance among the respondents in micro enterprises is access since its regression co-efficient is significant at five per cent level. A unit increase in the level of access result in an increase in the level of repayment performance by 0.1345 units. The changes in the level of relationship lending explain the changes in the repayment performance to an extent of 65.47 per cent since its R² is 0.6547.

Among the respondents in small enterprises, the significantly influencing factor in relationship lending on their repayment performance are trust and co-operative concern. A unit increase in the level of on trust and co-operative concern result in an increase in the level of repayment performance by 0.1393 and 0.1789 units respectively. The changes in the level on relationship lending explain the changes in the repayment performance to an extent of 73.94 per cent since its R² is 0.7394.

Among the respondents in medium enterprises, all the four factors in relationship lending have a significant impact on repayment performance. A unit increase in the level of factors in relationship lending result in an increase in their repayment performance by 0.1804, 0.1911, 0.2408 and 0.2044 units respectively. The changes in the level o relationship lending explain the changes in their repayment performance to an extent of 79.49 per cent since its R² is

0.7949. The analysis of pooled data reveals the relative importance of trust, access and co-operative concern in the determination of the repayment performance of the respondents.

Impact of determinants on the Repayment Performance among the respondents

The present study formulate two important determinants of repayment performance namely borrowers character and relationship lending. It is imperative to examine the impact of two determinants for some policy implication with the help of multiple regression analysis. The fitted regression model is:

$$Y = a + b_1x_1 + b_2x_2 + e$$

Whereas

Y – Score on repayment performance

X_1 – Score on borrowers character

X_2 – Score on relationship lending

b_1, b_2, b_3, b_4 – regression co-efficient of independent variables

a – intercept and

e – error term

The impact of determinants among the respondents in micro, small and medium enterprises has been examined separately along with the impact analysis for pooled data. The results are shown in Table 4.

TABLE 4 Impact of Independent variables on Repayment Performance

Sl. No.	Independent Variables	Regression co-efficient among respondents in			
		Micro	Small	Medium	Pooled data
1	Borrowers character	0.1244*	0.1417*	0.1804*	0.1504*
2.	Relationship Lending	0.1389*	0.1804*	0.2117*	0.1911*
	Constant	0.3411	0.5676	0.6884	0.5972
	R ²	0.1417	0.7033	0.7546	0.7841
	F-Statistics	7.0894*	7.3996*	7.9088*	8.4179*

*Significant at five per cent level.

Among the respondents in micro enterprises, a unit increase in the borrowers character and relationship lending result in an increase in the repayment performance by 0.1244 and 0.1389 units respectively whereas among the respondents in small enterprises, it is increased by 0.1417 and 0.1804 units respectively. Among the respondents in medium enterprises, it is increased by 0.1804 and 0.2117 units respectively. The changes in the determinants explain the changes in repayment behaviour to a higher extent among the respondents in medium enterprises since its R² is 0.7546. The analysis of pooled data reveals the relative importance of both borrower's character and relationship lending in the determination of repayment performance among the respondents.

VII. SUMMARY OF FINDINGS

The findings of the present study are presented below

The relationship lending is included as one of the important awareness of repayment performance among the respondents in the present study. It is measured with the help of 28 variables. The highly viewed variable by the respondents in micro and small enterprises are access to information and access to bank staffs respectively. Among the respondents in medium enterprises, there is commitment to disburse the loan. Regarding the view on relationship lending, the significant difference among the three group of respondents have been noticed in their view on 22 out of 28 variables.

The important factors in relationship lending (IFRL) identified by the factor analysis are trust, commitment, access, and co-operative concern. The variables in the above said four IFRL explain it to a reliable extent. The highly viewed IFRL by the respondents in micro and small enterprises is access whereas among the respondents in medium enterprises, it is commitment. Regarding the view on IFRC, the significant difference among the three group of respondents have been noticed in their level on trust, commitment and co-operative concern. In total, the level of relationship lending is higher among the respondents in medium enterprises than that among the respondents in micro and small enterprises.

The significantly associating important profile variables regarding the level of relationship lending among the respondents are level of education, age, years of experience, location of the unit and type of sector of the unit. The important discriminant IFRL among the respondents in micro and small enterprises is commitment which is higher among the respondents in micro and medium enterprises is commitment which is higher among the respondents in medium enterprises. The important discriminant IFRL among the respondents in small and medium enterprises is the co-operative concern which is higher among the respondents in medium enterprises.

Impact of Relationship Lending on Repayment Performance

The significantly influencing factors in relationship lending on the repayment performance among the respondents in micro enterprises is access whereas in small enterprises, these are trust and co-operative concern. Among the respondents in medium enterprises, all the four factors namely trust, commitment, access and co-operative concern significantly influence on the repayment performance. The rate of impact of relationship lending is noticed as higher among the respondents in the enterprises than that among the respondents in small and micro enterprises. In total, the important factors influence on the repayment performance is co-operative concern and access.

VIII. CONCLUSION

The present study conclude that the borrowers character and relationship lending among the respondents in micro enterprises is lesser compared to the respondents in small and medium enterprises. The repayment performance among the respondents in micro enterprises is also for lesser than that among the other two groups of respondents. Both the borrower's character and relationship lending have a significant impact on the repayment performance among the respondents where the higher impact is seen among the respondents in medium enterprises. The most important factor in borrower's character and relationship lending influence the repayment performance of respondents is experiences and co-operative concern respectively. If the

borrower's character and their relationship lending is promoted by the banks through some awareness and training programs, the banks can enrich the repayment performance even among the respondents in micro enterprises

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