

A CHAID Analysis on Financial Challenges to Micro Enterprises of Bhopal Region with Reference to COVID-19

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Abstract

Micro enterprises play an important role at the individual and national level, their contribution to the social, political and economic development of the country has been widely recognised. However in spite of the indispensable role played by the micro enterprises in the growth of any economy they face various challenges in form of lack of funds, low level of general and financial literacy, insufficient documents to avail credit and various others. The present study investigates these challenges and digs deeper into the nature of these challenging factors in determining the banking experience induced satisfaction of micro enterprise customers. For the purpose of the study the primary data was collected from the 75 micro entrepreneurs around the Bhopal region for the duration coinciding with the post COVID-19(second wave) period. The data was then analysed with the help of CHAID Decision Tree Analysis. The results revealed that number of sources from which credit has been availed and Registration with Urban Local Bodies have significant impact on the satisfying experience of micro entrepreneurs. The study finally makes suggestion for improving the general level of literacy, increasing credit allocation and avenues from where it can be availed and registration with Urban Local Bodies to overcome these challenges and further enhance the policy driven bank supported financial experience of the micro entrepreneurs.

Key Words - Document Requirement, Financial Literacy, General Literacy

Introduction

Micro Enterprises is the most vibrant and rapidly growing sector of the economy that is playing an indispensable role in the equitable distribution of resources and sustainable growth. It is one of the most common form of enterprise in most of the developing countries.

They provide great opportunities for providing low price goods, efficient services, income support and employment generation to the needy population of the country (Harvie). However in spite of the indispensable role played by the micro enterprises in the growth of any economy the face various challenges namely lack of funds, low financial literacy, low general literacy and various others all of which have a compounding effect on the overall financial crises faced by them.

As per the recent notification by Indian government a micro enterprise is an establishment where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed 5 crore rupees. As per the MS Semi Annual Report 2020-21 the number of micro enterprises in India are 630.5 2lakhs out of which 36% of them are engaged in trading activity, 31 % in manufacturing activity. Their share in the Gross Value Added (GVA) and contribution to the all India GDP for the year 2018-19 was 33.5 and 30.2 7% respectively. Acknowledging their contribution government is giving policy push and devising various scheme and interventions that help in the development and growth of these micro enterprises, which are ATI scheme, Coir Vikas

Yojana, SFURTI SI, Prime Minister Employment generation programme, Entrepreneurship and Skill Development Programme and various others.

Review of literature

Here is a literature review based on various their experience in developing countries and particularly in Indian scenario.

Prohorovs and Beizitere studies the changes in amount and structure of the micro enterprises financing in Latvia with regard to the three main sources of bank loans, leasing and factoring.

Chimucheka et al. investigates the challenges that are faced by the entrepreneurs in the Eastern Cape province of South Africa and identifies the inherent problem. The challenges identified were lack of networking opportunities, lack of access to finance and inadequate government support.

Kamunge et al. assesses the factors affecting the performance of micro enterprises in the Kenya. It concludes that among other key factors found to be affecting the business of these enterprises the access to business information, required infrastructure and the strong government policy support and regulations were significant in the growth and development of these enterprises.

Nair et al. provides an insight into the credit allocation of the micro enterprises and the way it has gone with the objective of their development. The study finds that the lack of credit has served as a chronic bottle neck for the microenterprise growth.

Jahanshahi examines the role of government policies and their impact on the growth of entrepreneurial intent and capabilities of the micro enterprises. It affirms that the various entrepreneurship development programmes by the government have a nullifying effect on the challenges faced by these enterprises.

Mor et al. investigates the sustainability of micro enterprises given the various challenges they faced in form of capital constraints, low level of literacy, lack of government policies support and various others.

Research Gap

From the extensive review of literature discussed above and various others it has been found that much of the work done on micro enterprises relates to the various forms of challenges. However, there is a dearth of literature on the investigation into the nature and extent of these challenges in affecting the banking experience induced satisfaction of these enterprises.

Objectives

The study is conducted with the objectives of:

1. To study the various issues determining the extent of financial challenges faced by Micro Enterprises.
2. To identify the determining factors in the banking experience induced satisfaction of micro enterprises.

Research Design

For the study the sample have been taken from the urban micro entrepreneur population in the selected areas of Bhopal region, particularly urban poor clusters. The duration of the data collection coincided with the Post COVID 19 (second wave) period. The sample size was 75 micro entrepreneurs.

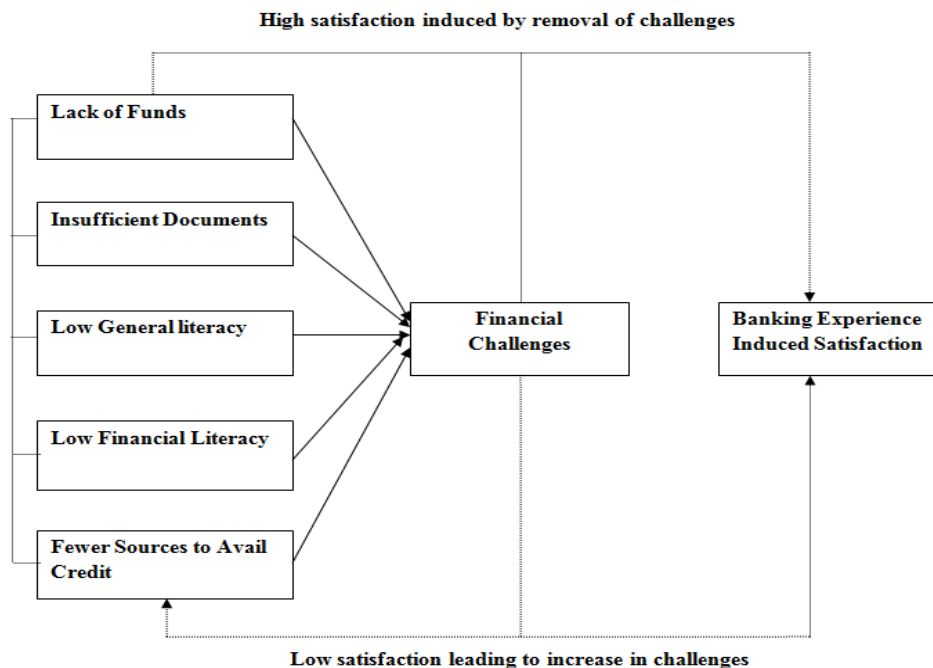


Figure 1: Diagrammatic Representation of Framework of the Study (based on literature) Source: Author's Own Compilation

Based on the literature surveyed framework for the study was prepared as shown below. The financial challenges faced by the micro enterprises are determined by the various challenges namely lack of funds, insufficient documents, low general literacy, low financial literacy and fewer resources to avail credit. These challenges in turn affect each other and are responsible for the overall credit crunch faced by the micro enterprises. Removal of these bottlenecks have a nullifying effect on the financial challenges and lead to high banking experience induced satisfaction of the micro enterprises (Chimucheka et al.). However low banking experience induced satisfaction of the customers lead to further increase in these challenges and vice versa (Naeem et al.; Fort et al.; Bhabha et al.).

Financial Challenges of Micro Enterprises

1.1 General Level of Literacy

General level of literacy was found to have a huge impact on the financial management capabilities, organisational efficiency and overall health and strength of the micro enterprises (Inan and Bititci). The study has tried to understand the impact of the education on the average monthly income which is used as a gauge for measuring the efficiency of the micro Enterprises. The research revealed that those who have higher education level were having higher average monthly income. Female micro entrepreneurs have lesser education and average monthly income than males.

Table 1: Education and Sex wise Distribution of Average Monthly Income:

			Education					
			No Education	Upto 5	Upto 8	Upto 9	Upto 10	Upto 12
			Mean	Mean	Mean	Mean	Mean	Mean
Sex	F	Average Monthly Income	4500.0	8000.0	8000.0	.	8000.0	.
	M	Average Monthly Income	8000.0	9600.0	10684.2	8000.0	.	11187.5

1.2 Lack of Funds and Number of Sources for Availing Credit

Government and banks provide funds to the micro enterprises for their development through various schemes and policy initiatives. But due to the interaction of the challenges that have been highlighted by this study and various others, micro entrepreneurs are unable to avail credit from the formal sources and thus face lack of funds. During the data collection the most popular sources of availing credit in the knowledge of respondents were bank loans, microfinance loans and loans under any scheme provided by the government. As can be seen from the chart below that 64% of the respondents have not availed any loan from above specified sources of credit. There are about 28 % of the respondents who have availed loan from two sources and most of these were microfinance and bank loans.

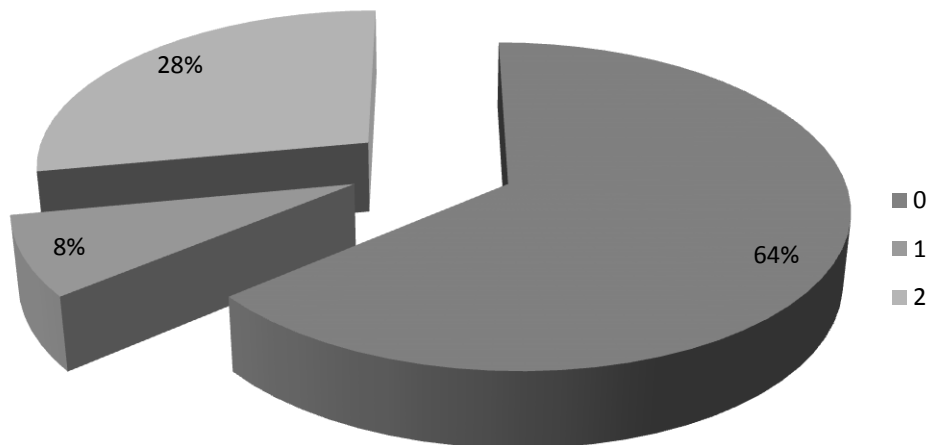


Figure 2: Percentage distribution of Number of Sources for availing Credit

1.3 Low Financial Literacy

Financial literacy has directly association with his ability to avail loan from various sources (Madhulata; Grohmann et al.; Berry and Chandan; Radipere and Dhliwayo). It is greatly affected by general level of literacy and in turn affects the number of documents in possession. Government as well as banks promote financial literacy through various initiatives of the form of "may I help you" counter, financial literacy camps organised by the banks, information dissemination through leveraging different digital platforms and various others. In a study the financial literacy score was

calculated through the weighted sum of scores on various knowledge parameters. It was found that most of the respondents were having a good financial score of 11.

$$Y = [(1 * \Sigma x_1) + (2 * \Sigma x_2) + (3 * \Sigma x_3)]$$

Where, Y = Financial Literacy Score, x_1 = knowledge of routine banking operation, x_2 = Knowledge of insurance and credit availing process and x_3 = knowledge of digital transactions

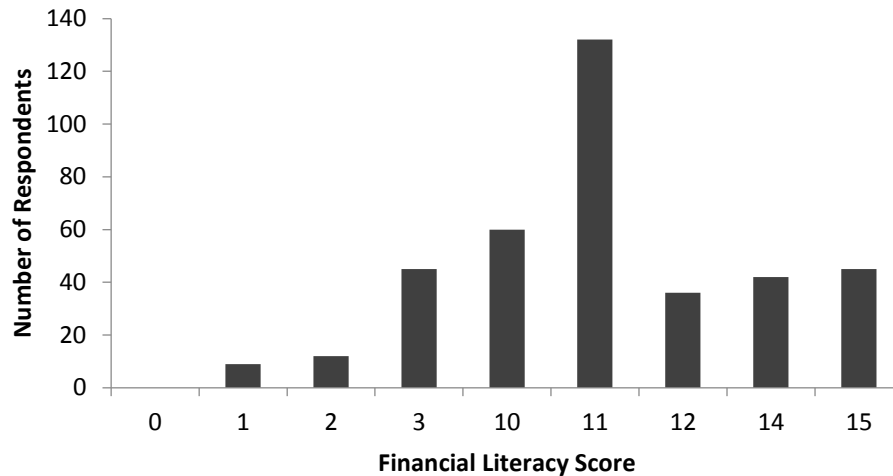


Figure 3: Distribution of Financial Literacy

1.4 Insufficient Documents

One of the important determinants that ensure the availing of loan through a smooth and easy process is the number of documents in the possession of a person (Allen et al.; David-west). Most of the loan process requires the document ranging from 3 to 4 in number. Many of the loan applications are rejected citing and reason of insufficient documents attached with loan quotation. However in this study we found that most of the respondents have 3 or more documents in their possession.

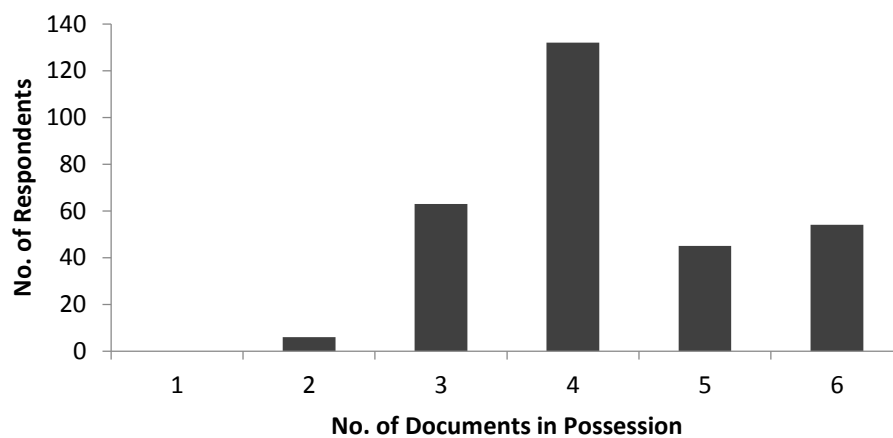


Figure 4: Distribution of Number of Documents in Possession

2 CHAID Decision Tree Analysis of Banking Experience Induced Satisfaction

Various challenges discussed above have an impact on the satisfaction that micro entrepreneurs derive from their banking experience. Their banking experience induced satisfaction has been studied with respect to their experience from financial products, financial services and grievance redressal.

To find out the determining factors in case of banking experience induced satisfaction, the study makes use of CHAID decision tree analysis which is one of the most important statistical analysis tool that helps identify the key variables for predicting the values of categorical outcomes from the number of predictor variables (Tatli; Horner et al.). It makes no assumption of normality, linearity and homogeneity of variables.

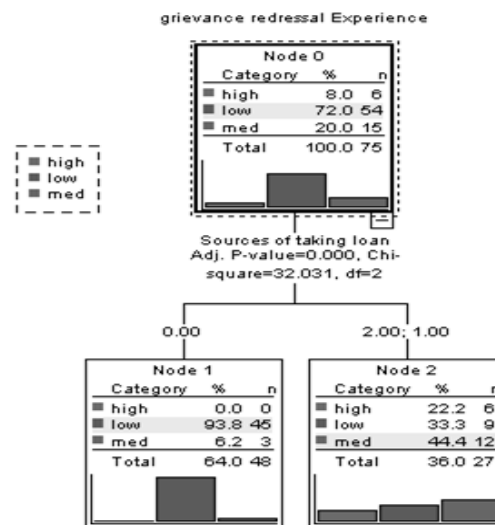


Figure 5: CHAID Decision Tree Analysis of Grievance Redressal Experience

In case of grievance redressal experience sources of taking loan was found to be the best predictor variable ($\chi^2 = 32.031, p < 0.05$) that significantly affected the experience of the customer whether he has low Medium or High level of satisfaction from the grievance redressal services of the banks.

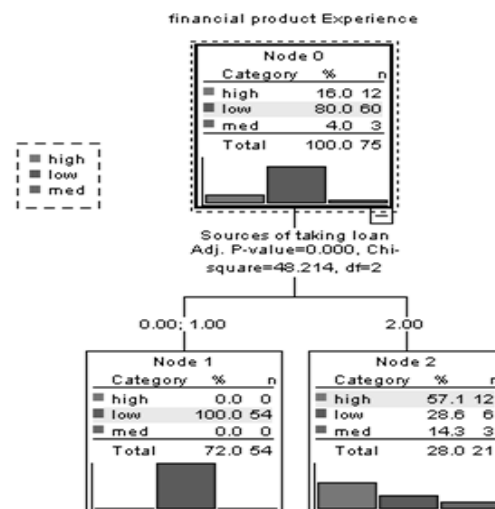


Figure 6: CHAID Decision Tree Analysis of Financial Product Experience

Those who have taken loan from 1 or 2 sources were having higher experience of satisfaction than those with no credit taken from any source.

In case of financial product experience again the number of sources of taking loan was found to be the best predictor variable ($\chi^2 = 48.214$, $p < 0.05$) that significantly affected the experience of the customer whether he has low, Medium or High level of satisfaction from the financial products offered by the banks. Those who have taken loan from 1 or 2 sources were having higher experience of satisfaction than those with no credit taken from any source.

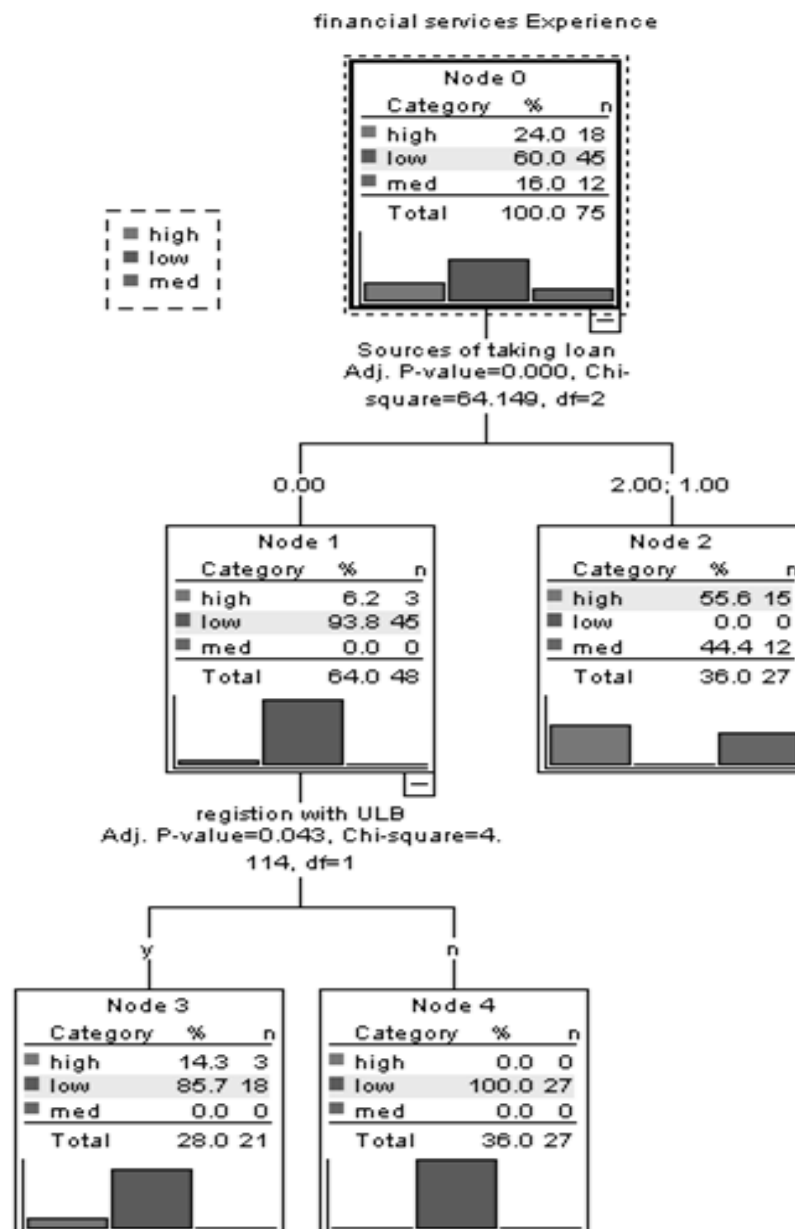


Figure 7: CHAID Decision Tree Analysis of Financial Service Experience

In case of financial Service experience again the number of sources of taking loan was found to be the best predictor variable ($\chi^2 = 64.149$, $p < 0.05$) that significantly affected the experience of the customer whether he has low, Medium or High level of satisfaction from the financial services

offered by the banks. Those who have taken loan from 1 or 2 sources were having higher experience of satisfaction than those with no credit taken from any source. The experience of the respondents with no source for loan availed was further affected by registration with any Urban Local Body. For those who were registered with any urban local body 14.3 had higher experience of satisfaction.

Findings

On studying the results of the above CHAID decision tree analysis in the context of various financial challenges faced by the micro enterprises it has been revealed that:

1. General level of literacy was found to have a huge impact on the entrepreneurial efficiency of the micro enterprises particularly those that are headed by the females.
2. Most of the enterprises were not even able to avail loan from the popular sources of credit that were reported in the data. There was very low penetration of credit through various schemes of the government.
3. Low financial literacy was one of the potent cause of lack of funds with the micro enterprises this is also one of the important reason behind insufficient documents to avail credit.
4. The experience of the satisfaction towards the grievance redressal, financial services and financial products of the banks by the micro enterprises are all affected by the number of sources from which they had taken credit.
5. In case of the decision tree analysis of financial services, for those who have not taken any credit from various sources their experiences was inturn affected by whether they were registered with ULB or not.

Suggestions

The identification of determining factors from the data analysis and the consequent findings lead us to make the following suggestions:

1. The banking experience of the micro enterprises is affected by the their general level of literacy so there is a need to give push to increase the literacy rate which will increase the financial literacy of the needy population.
2. There is a need for the wider information dissemination for the various sources from where the credit is disbursed to the needy micro entrepreneurs, so an integrated platform involving use of both physical and digital mode is required.
3. There is a need for the universal registration of the micro enterprises with their concerned government, quasi government and non government organisations.
4. The credit disbursal process must be easy requiring less number of documents and minimum paper work this will enhance the banking experience induced satisfaction of the micro enterprises.

Conclusion

The study provides an investigation on the various challenges faced by the micro enterprises and their effect on their overall financial challenges. The study reveals that micro enterprises being the most important source of employment generation and income distribution are facing fund crunch because of the low satisfaction induced by their banking experience which is prominently driven

by the number of sources of credit they have availed loan from. The study suggests that there is a need for giving push to general and financial literacy and a easy credit disbursal process along with more information dissemination on various sources of credit. This will truly make micro enterprises an engine of sustainable growth and inclusive development

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