

Significance of Micro finance institutions in Rural development of Rajasthan

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Abstract: More than subsidies poor need access to credit. Absence of formal employment make them non 'bankable'. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. The present paper discusses conceptual framework of a microfinance institution in India. The successes and failures of various microfinance institutions around the world have been evaluated and lessons learnt have been incorporated in a model microfinance institutional mechanism for India.

Keywords: Micro finance institutions, Rural development, Credit Risk, civil score, Economic development

INTRODUCTION

The social and economic significance of Micro, Small and Medium FINANCE INSTITUTIONSs in the economic development of emerging countries of the world is widely acknowledged. Micro finance institutions drive modern economies through their multifaceted contributions in terms of technological innovations, employment generation, export promotion, etc., and are inspired by individual initiative and creativity.

The influence of macro environmental and firm specific factors on Indian MICRO FINANCE INSTITUTIONS has been well researched and documented. The other dominant factor that influences enterprise performance, namely, the entrepreneurial competence could be further influenced by the culture which the entrepreneur inherits from the environment and the social systems innate to the country or the region that she hails from. The nature and extent of this influence of a region's culture on the competence and performance of Indian Micro finance institutions in managing Micro finance institutions in that region have not yet been largely researched or documented. This research work attempts to fill that gap.

A review of literature led to three research questions which relate to (i) variations in performance of micro, small and medium Micro finance institutions(ii) variations in the cultural attributes of micro, small and medium Micro finance institutions and (iii) influence of the cultural attributes of micro, small and medium Micro finance institutions on their performance.

The subsequent analysis of the questionnaire responses came out with interesting results. The performance varied significantly across many of the MICRO FINANCE INSTITUTIONS segments. The cultural dimensions (except pragmatic orientation) were found to be significantly varying across the various MICRO FINANCE INSTITUTIONS segments. It could also be observed that certain level of correlation occurred between some of the dimensions across given segments. The performance levels were also found to be dependent on cultural factors across the various segments. The nature and extent of the influence were observed to be further dependent on the region or state of operation, and within each state, the enterprise type, business type or location type or the various combinations of these factors.

BACKGROUND OF RESEARCH

Micro finance institutions sector forms the economic backbone of countries not only with higher levels of income, but also developing countries with lower levels of income. A review suggests that there is a diversity that exists in these various definitions across nations and regions; there is a variety not just in the definitions of this sector The Micro finance institutions have always been the key catalyst in the Indian economy (MICRO FINANCE INSTITUTIONS Annual Report,(2011-12).

Indian Micro finance institutions are often closely related to the traditional business in a given region of the country especially when it is related to or triggered by the agricultural and traditional living habits of the place. Handloom and handicrafts are also part of these businesses which are region dependent and often community based. There are many businesses that are region specific and are carried on by families through generations.

The Micro finance institutions in India are defined under the provisions of the MICRO FINANCE INSTITUTIONS Act, Government of India.

a) **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation Act, 1951); classified in terms of investment in plant and machinery.

b) **Service Enterprises:** The enterprises engaged in providing or rendering of services; classified in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are provided in below:

Classification of Indian MICRO FINANCE INSTITUTIONS

Sector	Enterprises	Investment in P & M / Equipment
Manufacturing	Micro	Less than ₹2.5 Million
	Small	Between ₹2.5 Million & ₹ 50 Million
	Medium	Between ₹50 Million & ₹100 Million
Services	Micro	Less than ₹1 Million
	Small	Between ₹1 Million & ₹ 20 Million
	Medium	Between ₹20 Million & ₹50 Million

RATIONALE FOR RESEARCH

Our review of the various statistics of the fourth census showed us that the Micro finance institutions across various major states of India performs differently even though all the states came under the same macroeconomic environment. We also saw how the environmental and contextual diversities get further moderated or influenced by certain aspects like the region (or state in the Indian context), the location of the enterprise, the size of its operations, namely, micro, small or medium (as per Government of India classification) and whether they provide products or services output.

States: India's diversities, cultural pluralism and the differing social and cultural orientations across different regions of the country are well known (Anderson, 2012; Deshpande & Sharma, 2013). India is a federal union of states comprising twenty-nine states and seven union territories. The states and union territories are further subdivided into districts and further into smaller administrative divisions.

GVA of Registered & Unregistered Micro finance institutions (State-wise) as a percent of GSDP

Sl. No.	States	Registered Units		Unregistered Units		Total GVA	GSDP (2006-07)	Total GVA as percent of GSDP
		No. of Units	GVA	No. of Units	GVA			
		₹ '000s	₹ Million	₹ '000s	₹ Millions	₹ Millions	₹ Millions	
6	Jaipur	150	99,588	1,294	1,65,584	2,65,172	14,16,670	18.72
21	Rajasthan	87	3,99,393	1,445	1,04,636	5,04,029	54,07,500	9.32

The administrative, social, political and cultural environments of each of the states of the country moderate the working of Indian MICRO FINANCE INSTITUTIONS. Tables highlight the MICRO FINANCE INSTITUTIONS output characteristics of the two sample states, namely, Jaipur and Rajasthan. Jaipur is ranked 6th (out of 28) and Rajasthan 21st (out of 28) based on the respective state's contribution to the corresponding GSDP. The profiles of these two states are distinctly different and represent the larger spectrum of the country in terms of diversity.

Location of Business: The Indian rural scenario provides a very typical example of the old traditional economy with its innate socio cultural framework and the urban India, on the contrary, provides a transition into the increasingly modernized and integrated with the national market economy (Polanyi, 1957; Rosser & Rosser, 2005).

Size of Business: The micro organizations with their small investment, reach and limited capabilities to produce and market form one end of the spectrum while medium sized enterprises with investment even going eight up to INR 100 million in the case of manufacturing units form the other end of the spectrum. The small enterprises form the middle part of the spectrum. The three major groups of enterprises have widely varying nature of operations.

Nature of Business Operations: The nature of business operations of Micro finance institutions can be mainly divided into two based on the nature of their output/delivery: it can be either manufacturing in the cases enterprises that manufacture and deliver products or services oriented if they deliver services including repairs and maintenance services.

Research Questions and Hypotheses

The main fuel for MICRO FINANCE INSTITUTIONS performance is the entrepreneurial creativity and brilliance in managing the respective enterprises and how efficiently an entrepreneur deploys and manages his enterprise's labour force. The unique selling points of these enterprises are their cohesiveness, efficiency of operations and the single minded management of the Micro finance institutions who often contribute the most important skill sets for these start ups.

The discussions we had, so far, lead us to three specific research questions:

1. Are there any variations in the performance levels of micro, small and medium Micro finance institutions across the two states, two enterprise types, two business types, and two locations and interactions thereof?
2. Are there any variations in the influence of cultural dimensions of micro, small and medium Micro finance institutions across the two states, two enterprise types, two business types, two location types in India and interactions thereof?
3. Do the cultural dimensions of micro, small and medium Micro finance institutions influence annual growth in labour productivity in Micro finance institutions across possible combinations of the sample States, Location types, Enterprise types and Business types?

The key aspect of entrepreneurial performance in managing small business is how efficiently she/he deploys and manages the MICRO FINANCE INSTITUTIONS's labour force. The 'Performance Variable' from this perspective could be defined as the Annual Growth (per cent) of 'Revenue per Employee' or 'Labour Productivity'.

$$AGLP = [(R_{year2} / L_{year2}) - (R_{year1} / L_{year1})] * 100 / (R_{year1} / L_{year1})$$

Where

AGLP= Annual Growth in Employee Productivity (Performance Variable)

R_{year2} = Total Annual Sales Revenue for year2 (2019-20)

R_{year1} = Total Annual Sales Revenue for year1 (2018-19)

L_{year2} = Total number of the labour for year2 (2019-20)

L_{year1} = Total number of the labour for year1 (2018-19)

Cultural dimensions are measured by the Micro finance institutions' cultural orientation based on the questionnaire on a Likert scale from 1 to 5 with 1 being Strongly Disagree to 5 being Strongly Agree.

Following hypotheses were formulated based on the three research questions

Research Questions and Hypotheses

Research Question-01:

Are there any variations in the performance of MICRO FINANCE INSTITUTIONS Micro finance institutions across the states, location types, enterprise types, business types and across the various hierarchical interactions of state, location, enterprise, and business types?

Hypotheses Set-01

H0.1 There is zero variance in the performance of MICRO FINANCE INSTITUTIONS Micro finance institutions across the states, location types, enterprise types, business types and across the various hierarchical interactions between state, location, enterprise, and business types

Research Question:-02:

Are there any variations in the influence of cultural dimensions of MICRO FINANCE INSTITUTIONS Micro finance institutions across states, location types, enterprise types, business types and across the various hierarchical interactions of state, location type, enterprise type, and business types?

Hypotheses Set-02

H0.2.1	There is zero variance in Power Distance	Micro finance institutions
H0.2.2	There is zero variance in Uncertainty Avoidance of	across states, location types, enterprise types,
H0.2.3	There is zero variance in Collectivism of	business types and across
H0.2.4	There is zero variance in Masculinity of	the various hierarchical
H0.2.5	There is zero variance in Pragmatic Orientation of	interactions between state, location types, enterprise
H0.2.6	There is zero variance in Indulgence of	types, and business types

Research Question:-03:

Do the 'cultural dimensions' of Micro finance institutions influence performance of Micro finance institutions across the various combinations of state, location type, enterprise type, and business type?

Hypotheses Set-03

H0.3.1	Power Distance does not influence	Micro finance institutions
H0.3.2	Uncertainty Avoidance does not influence	across the various
H0.3.3	Collectivism does not influence	hierarchical combinations
H0.3.4	Masculinity does not influence	of location, enterprise,
H0.3.5	Pragmatic Orientation does not influence	and business types in Jaipur

H0.3.6 Indulgence does not influence

H0.3.11 Power Distance does not influence Micro finance institutions

H0.3.12 Uncertainty Avoidance does not influence across the various

H0.3.13 Collectivism does not influence hierarchical combinations

H0.3.14 Masculinity does not influence of location, enterprise,

H0.3.15 Pragmatic Orientation does not influence and business types in

H0.3.16 Indulgence does not influence Rajasthan

RESEARCH METHODOLOGY FOR PRIMARY SURVEY AND ANALYSIS

We discussed the methods followed for data collection and analysis for primary survey phase.

Questionnaire Development: The findings of the exploratory and validation phase led us to the following cultural dimensional framework for our current research

Data Sampling: The four sample segments considered for our research are States, Location types, Enterprise types and Business types. Two **states**, namely, Jaipur and Rajasthan were selected for sampling. The other three sample factors considered for this study are **enterprise type** (size of enterprise viz. Micro, small and medium), **location type** (whether urban or rural), and **business type** (manufacturing and services). We have taken the small and medium enterprises into a single category as the number of respondents from the medium enterprise category is too low. The two types of business manufacturing and service are also considered.

Data Collection: 102 responses from Jaipur and 305 from Rajasthan were finally considered for our final data analysis.

A non-probabilistic quota sampling method was adopted here. Within the two sample states we had covered the following segments which could act as moderating influences on the entrepreneurial performance:

State:	Jaipur and Rajasthan
Location Types:	Rural and Urban
Enterprise Types:	Micro, Small and Medium Sectors
Business Types:	Manufacturing and Services

Data Analysis Methodology: The data analysis process had the following phases:

- 1) Pilot Testing the reliability and validity of the questionnaire.
 - a. ANOVA: Variance of Performance across the MICRO FINANCE INSTITUTIONS segments
 - b. ANOVA: Variance of the seven Cultural Dimensions across the MICRO FINANCE INSTITUTIONS segments
- 2) Step-wise Regression Analysis between the Performance Variable and seven Cultural Dimensions.

DATA ANALYSIS AND RESULTS

Pilot Testing of Questionnaire for Reliability and Validity

The reliability of the questionnaire was tested using Cronbach's Alpha which is a measure of internal consistency and scale reliability. The Cronbach alpha was calculated for the first twenty nine questionnaires received. The Cronbach's Alpha values were more than 0.7 which gave acceptable reliability for the data. Validity refers to the degree to which the measurement procedure

actually measures the concept that it was intended to measure. The validity of the questionnaire was tested using a focus group of experts. They were asked to give their inputs as to how to reduce ambiguity, leading questions, emotive questions, stressful questions, culturally and also ethnically inappropriate questions. These inputs helped to revise the questionnaire. .

Variation of Performance Variable across MICRO FINANCE INSTITUTIONS Segments (ANOVA)

We had done ANOVA to understand the behaviour of the Performance Variable across state, enterprise type, business type and location type and the cross interactions among these segments. The summary result is given the table below:

Variation of Cultural Dimensions across MICRO FINANCE INSTITUTIONS Segments (ANOVA)

Cultural Dimensions	where Variance was Significant	Analysis of Variance
Power	State	Higher in Rajasthan; Lower in Jaipur
Distance	Location type	High in rural and low in urban locations
Score	Enterprise-Business Types	1) Small & Medium: High in Mfg & low in Service Units 2)Micro: High in Service, low in Mfg
Risk-taking Propensity	Location Type	High in urban and low in rural locations
	State-Location Type	1) Jaipur: High in urban and low rural locations 2) Rajasthan: High in rural and low in urban locations
	State-Business Type	1) Jaipur: High in Mfg and low in service units 2) Rajasthan: High in service and low in Mfg units
	Enterprise-Business Type	1) Micro: High in service and low in mfg units 2) Small & Medium: High in mfg and low in service Units
Collectivism	State	Higher in Jaipur; Lower in Rajasthan
Masculinity	State	Higher in Rajasthan; Lower in Jaipur
	State-Location Type	1) Jaipur: High in urban and low rural locations 2) Rajasthan: High in rural and low in urban locations
	State-Business Type	1) Jaipur; High in Mfg and low in Service units 2) Rajasthan: High in Service and Low in mfg units
Pragmatic Orientation	NONE	
Indulgence	Enterprise Type	High in micro and low in small & medium
	Business Type	High in Service and low in Mfg
	Location-Business Types	1) Urban: High in Service and low in Mfg units 2) Rural: Both equal
Ethnic Orientation	Location-Business Types	1) Rural: High in Mfg and low in Service units 2) Urban: High in Service and low in Mfg
	Location-Enterprise-Business Types	1) Micro, Mfg, in Rural-High 2) Micro, Service, Urban-High 3) Small & Medium, Mfg, Rural-High 4) Small & Medium, Service, Rural-High

The results of the ANOVA gave the following results.

- Power Distance was found to vary significantly across State, Location type, and Enterprise-Business type segments.
- Risk-taking propensity varied significantly across State-Location Type, State-Business type, and Enterprise-Business type segments.
- Collectivism dimension varied significantly only across State.

- Masculinity dimension varied significantly across State, State-Location type, and State-Business type segments.
- Pragmatic Orientation did not show any significant variance across any of the segments.
- Indulgence varied significantly across Enterprise and Business types.
- Ethnic Orientation varied significantly across Enterprise-Business type and Location-Enterprise-Business type segments.

Based on the above findings, the null hypotheses, **H0.2.1 to H0.2.2, H0.2.3, H0.2.4, H0.2.6 and H0.2.7** could be rejected.

The null hypothesis **H0.2.5** could not be rejected as pragmatic orientation was not found to be significantly varying across any of the segments.

Impact of Cultural Dimensions on Performance (Step-wise Regression)

The Regression analysis attempts to find out as to how far the seven cultural dimensions influence the performance. In order to achieve that we find out as how much the performance variables were influenced by the seven cultural dimensions as expressed in Likert scale through the questionnaire inputs. Here the performance variable was the dependent variable and the mean values of the seven dimensions as expressed by the respondents from both the states were the independent variables. Step-wise regressions were done across sixteen combinations of segments (2x2x2x2), across the two states, the two location types, the two enterprise types and the two business type combinations. The results are summarised in Table 8.

Similarly Risk-taking propensity and Masculinity Dimension are highly correlated across State-Location type and State-Business type interactions. This seems logical as Masculinity comes with high aggression, high ambitions and high appetite for material gains. This can definitely be the trigger for people to go for risks since their urge to achieve material success overcome the fear of uncertainties or risks.

The fourth and last aspect of this study is the analysis of how cultural dimensions of Micro finance institutions influence their performance.

Our analysis of the data led us to understand that the cultural attributes of Micro finance institutions do influence their competence to perform with respect to the management of the human resources which, incidentally is the most crucial part of management of MICRO FINANCE INSTITUTIONS. A few of the noticeable trends in the results of the data analysis could be highlighted. The behaviour of Power Distance dimension leads to the observation that success of manufacturing enterprises in the Small and Medium segment which had higher investment and delivery stakes needed a disciplined and focussed work style which could have been facilitated more by the hierarchical and controlled environments. Conversely, the Service business needed more space at employee level and a more collaborative work style.

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