

## Rural Consumers' Access to Credit and Role of Bank's Marketing in Rural Karnataka

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**Abstract:** *The mobilization of rural consumers' potential savings to generate credit for inclusive lending to the rural/urban poor consumers in emerging markets presents a strategic challenge for policy makers. Large-scale credit aggregation can only be achieved by the use of modern banks. However, rural consumers may resist the use of banks as objects of nonlocal origin. The authors rely on the classic theory of demand aggregation advantage to critically analyze the public policy framework underpinning rural banking for the attainment of inclusive economic development goals of bottom-of-the-pyramid markets. An empirical test of the framework in Karnataka's rural banking programs shows that demand aggregation advantage predicts consumer satisfaction with the inclusive lending practices of banking institutions among existing clients but not new clients. The study suggests that the public policy framework for promoting compliance with inclusive lending goals of rural banking programs in Karnataka does not adequately consider rural consumers' interpretation of demand aggregation activities.*

**Keywords:** *Consumer inclusiveness, Demand aggregation advantage, Rural economic development policy, Financial Institutions, Karnataka.*

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### I. Introduction

During the past two decades, marketing scholars have shown a keen interest in the contribution of marketing to society and are now paying attention to the public policy role of marketing in emerging markets (Natraj,2007).Proponents of inclusive economic development argue that addressing the rural/urban poor market segments in backward areas presents challenges and opportunities for a range of research regarding marketing's new role as an active agent for shaping public policy (Jagadeesh,2014) in particular, has argued that a demand aggregation orientation is more appropriate for conceptualizing marketing to help frame inclusive growth policies for all consumers, not just those consumers who can afford existing products or services.

Examining the role of marketing in shaping inclusive growth policies is especially promising for emerging markets given the persistence of the urban-rural imbalance in development (Burgess&Steenkamp,2006). including lack of access to social amenities, such as medical services, financial services, electricity, and pipe-borne water (Dawar,& Chattopadhyay 2002).Poverty alleviation policies addressing these imbalances in economic development and the plight of consumers at the bottom of the economic pyramid (BOP) have gained attention and interest among marketing scholars (Banerjee & Sahay et al 2015). Moreover, these inclusive economic development programs often require aggregation of individual small savings through the banking system. However, financial institutions are unlikely to voluntarily pursue inclusive lending for all rural consumers because of profitability considerations (Berger & Udell, 1995).Thus, proposition that firms can attain superior financial performance by pursuing demand aggregation advantage .However, the demand aggregation proposition remains to be operationalized as a useful public policy framework

In this study, we develop a rural consumer-oriented framework to understand the role of demand aggregation advantage in the attainment of inclusive growth policy objectives in backward areas' economic development programs. We then test this framework in the context of Karnataka's rural banking programs. As in many Backward areas' economic development programs, the primary inclusive growth goal in Karnataka's rural bank program is to increase the accessibility of affordable credit to the large proportion of rural/urban poor consumers who are typically excluded from credit in the banking sector. We decided to concentrate on Karnataka because the rural banking program in this South Indian State has a history of pursuing inclusive growth objectives through public-private collaboration

We contend that the attainment of the inclusive policy goals of economic development programs, such as rural banks, depends on how policy makers resolve the strategic challenge inherent in the conflicting financial

interests of banks and policy makers' goals of inclusive growth in making credit affordable to all consumers, not just those who can afford credit under existing conditions. On the one hand, firms can only pursue inclusive lending and still attain their profit goals by aggregating demand on a large scale. On the other hand, rural consumers may be less receptive to the strong urban orientation of mainstream banks, thus hampering banks' ability to generate sustainable aggregate demand advantage on a large scale. Thus, an effective policy intervention framework must emphasize the demand aggregation capabilities of different banking institutions to enhance banks' compliance with the inclusive growth objectives. We define demand aggregation advantage as the manifestation of consumer preference for the bank savings habit. First, the purpose of this study is to put forward a consumer-based framework for evaluating compliance by banking institutions with the inclusive growth policy objectives of rural banking programs in BOP markets. Second, this study evaluates the role of marketing in attaining public policy growth objectives in rural banking programs in BOP contexts.

In the remainder of this article, we review the literature on how marketing shapes public policy options in rural banking programs. We then use this review to formulate testable research hypotheses in BOP rural banking programs, with an emphasis on Karnataka. Next, we report the results of the field study in Karnataka and discuss how this study extends understanding of public policy issues and marketing in BOP economic development programs

### **Characteristics of Rural Communities and Economic Development Programs**

It is widely recognized that sustained economic development of rural areas is difficult to maintain without the implementation of inclusive economic development programs to correct the current imbalance in urban–rural development (Helms 2006).). The goals of these inclusive economic development programs are informed by three main characteristics of rural communities. First, rural populations have severely limited access to social amenities such as medical services, financial services, electricity, and borewell water. Diseases of various types abound in such areas. The poverty levels in most under developed areas are far higher in rural communities than in urban communities. Second, the economies of rural communities in underdeveloped areas are predominantly agricultural and reflect premarket or subsistence economies. Most rural consumers engage in small-scale farming or trading using traditional farming methods and operations based on simple mechanization (i.e., farm machinery such as tractors). A related aspect of this premarket economy is that a large proportion of transactions operate outside the money economy. At the same time, only a small proportion of the total production outputs, especially farm outputs, is sold for cash (Jin & Zou, 2002).

Although there is no consensus as to the best strategy for attaining inclusive economic development, rural banking programs are considered an essential part of any inclusive economic development program. Rural banks act as economic development agents by channeling funds from low yield to high-yield investments (Rajasekhar, & Suchitra, et al. 2007) Moreover, banks enhance monetary controls by integrating rural consumers into the cash economy, which is helpful in addressing inclusive growth in rural communities. Finally, evidence suggests that the level of savings increases with the spread of banks, though the direction of causation is unclear (Sanoor, 2009).

Given the critical role of banks as agents of economic development, policy makers seek to mobilize rural consumers' savings through the formal banking network to generate credit for rural community development. For rural banking programs to enhance rural economic development, policy makers emphasize three types of inclusive growth goals. First, mobilized credit is aimed at improving rural economic activities such as productivity of agriculture (Bantel & Jackson 1989).The second inclusive growth goal is to make credit access an integral part of the long-term strategy for rural community development, and the third is to facilitate the development of the entire rural economy and to generate employment opportunities for the small-scale farmer (Burgess & Pande 2003). Despite the benefits associated with rural consumer access to financial services, research has documented several barriers to its mobilization through the formal banking system (Binswanger 1981).These barriers arise from the characteristics of rural consumers (Shivappa2005).) as well as the marketing practices of formal banking institutions (Ibrahim 2010). These conditions enhance the role of marketing in economic development.

### **Marketing Theory and Inclusive Growth Policy Outcomes in Rural Banking Programs**

The common view of marketing theory in the stream of research on marketing and society (Chandrashekhar & Bhat, et al 2007), including marketing and economic development (Howard & Sheth 1969). ), is the traditional conception of marketing as the creation of differential advantage (Rao & Erappa, 1987).). However, marketing scholars, in their renewed interest to rethink the validity of marketing practices in under developed contexts, now argue that traditional marketing theories may be inappropriate for these contexts (Sheth, & Newman et al

1991).) raises such an issue with the classic demand differential advantage. He argues that demand differentiation advantage is inappropriate for emerging market contexts, in which consumers are more concerned with affordability and accessibility than the service conveniences offered by demand differentiation. Furthermore, Sheth proposes that in the emerging market context, firms pursuing demand aggregation gain aggregate demand advantage through scale economies and, thus, enjoy superior financial performance. Demand aggregation advantage comes from emphasizing the four As of marketing activities— acceptability, accessibility, affordability, and awareness— to new customers and not existing customers. We find Sheth's proposition more relevant for BOP rural banking programs because demand aggregation is inherent in the process of accumulating individual small savings deposits through formal banks' inclusive lending. However (Ramji, 2009). It is uncertain if and how firms can generate an aggregate demand advantage in BOP economic development contexts in which policy makers must rely on profit-motivated firms to comply with the public policy goal of inclusive growth. Thus, we define the boundary conditions for BOP policy intervention programs. More importantly, we draw on a theoretical proposition in consumer culture theory, which posits that objects of nonlocal origin are potentially subject to local interpretations (Halli & Blanchard et al 2007). as a source of both resistance and interference in the local cultural order. We critically apply this "local interpretation tenet" to explain how demand aggregation activities generate the consumer saving habits necessary to foster banking institutions' inclusive lending practices in BOP countries.

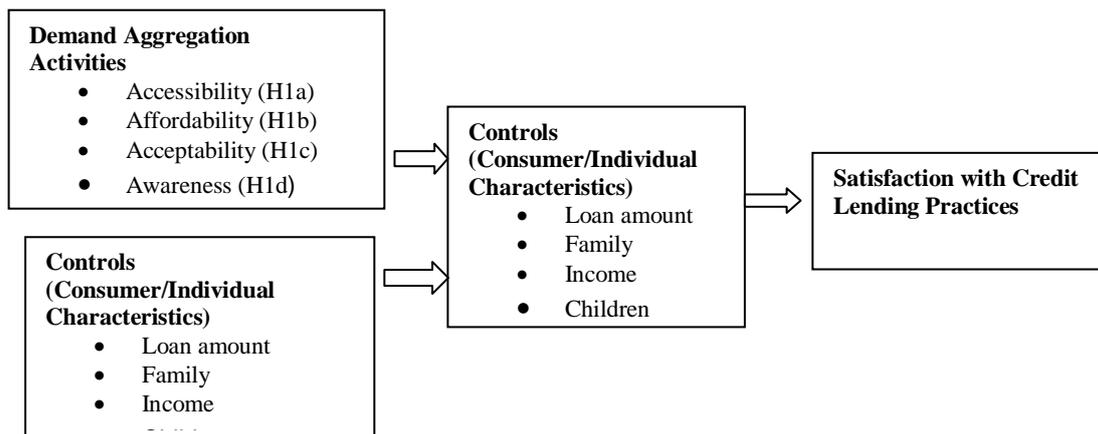
### **Hypotheses**

The proposed demand aggregation framework for evaluating the public policy outcomes of inclusive economic development programs, such as rural banking in BOP states, appears in Figure 1. As we have conceptualized in this framework, policy emphasis on the allocation of scarce marketing resources for promoting rural banking programs fosters demand aggregation practices by banking institutions as well as rural consumers' willingness to maintain their bank savings habit (a proxy for demand aggregation advantage). Consumer's willingness to sustain the bank savings habit, however, is contingent on how they interpret their experiences with all demand aggregation activities within their local context. Thus, policy makers need a thorough understanding of how local consumers interpret rural banks' demand aggregation activities and how such interpretations influence consumers' satisfaction with banks' inclusive lending practices. We suggest that consumer's response to their local interpretations of demand aggregation activities are primarily inferences about the compatibility, relevance, and convenience of service; accessibility; acceptability; affordability; and benefit awareness generation activities of participating banks

### **Accessibility of Service Convenience**

"Accessibility" refers to the extent to which customers are able to readily acquire and use a product or service. Distribution channels in BOP markets can be fragmented or nonexistent, and the task of providing consumers with their desired products or services can be a significant hurdle to overcome. Therefore, firms need to explore alternative methods of ensuring delivery of their products and services to even the most isolated BOP communities (Khan & Mahapatra,2009).In rural communities, consumers are likely to interpret service accessibility in terms of proximity to their towns and villages because formal banks are concentrated in urban centers. To address this constraint, policy intervention often focuses on the expansion of existing banking networks or improving location convenience for the use of banks in the form of public investment in the construction of roads, bank offices, and the training of banking personnel (Parikh 2006). It also requires the collaboration of banking firms and state agencies. However, rural consumers' preference for banks as objects of nonlocal origin is rarely a major consideration in the network expansion decision. Because banking institutions vary in their orientation toward rural financial markets, the network expansion decision should also entail evaluation and selection of the appropriate mix of banking institutions (i.e., commercial banks, rural banks, and informal institutions). Each of these institutions has different demand aggregation capabilities. For example, in more remote villages, informal banks (cooperative associations) are more effective in demand aggregation at the local and community level because they are a part of the preexisting local infrastructure. However, these informal banks may lack the scale economies needed to generate adequate credit unless integrated into the formal banking network. In contrast, commercial banks, while possessing superior marketing resources, are often more efficient for urban populations that have the higher density necessary to support the attainment of economies of scale. Rural areas have often addressed the challenge of ensuring consumer accessibility to urban versus rural forms of formal banking by relying on a variety of specialist banks such as rural banks, agricultural development banks, District cooperative bank in addition to commercial banks.

Figure 1. A Model of Demand Aggregation Antecedent and Effects in Rural Bank Programs



Despite the trend toward expansion of the banking network, however, many rural consumers still do not have easy access to banks. Thus, we suggest that rural consumers are likely to interpret banking service experiences as lacking in accessibility. Such negative local interpretation of service accessibility will have a negative influence on their willingness to maintain the bank savings habit, which will ultimately discourage inclusive lending by rural banks.

#### Affordability of Banking Service

We define “affordability” as the degree to which a firm’s goods or services are affordable to poor consumers. Many low-income consumers in developing countries, specifically in BOP regions, survive on daily wages, meaning that cash flow can be a significant problem. Firms need to be able to deliver offerings at a price point that enables consumption by even the poorest consumers (Sheth 2011). In BOP economic development programs, policy interventions must consider that rural consumers’ interpretation of affordability is likely to be shaped by the nonmonetized and largely subsistence economy. That is, there is an overall absence of cash, whereby “a very small portion of the total outlay on farm operations and home consumption is in the form of cash, the percentage of families that borrow is small, and the average amount borrowed per family is also small” . Following this argument, we predict that rural consumers interpret affordability of banking services broadly as ranging from service fees and interest on loans to include the need to avoid loss of their small savings deposits with banks that are “foreign to their existing cultural order. Accuracy and security of service will be major components of service affordability. Accordingly, we suggest that rural consumers’ evaluation of service affordability positively influences their bank savings habit, ultimately encouraging inclusive lending by banks. This response of banks to demand aggregation advantage will lead, in turn, to higher consumer satisfaction with inclusive lending practices of banks.

#### Acceptability of Banking Service

We conceptualize acceptability of banking service as the extent to which consumers view the service or product as being useable within their prevailing cultural norms and social context. Research suggests that rural consumers will interpret acceptability of banking services in terms of compatibility with local experiences with the use of informal financial institutions. Thus, banks will likely be viewed negatively in rural consumers’ experience because they are often intimidated by the reading and writing requirements (i.e., office environment) of banks. Consumers may perceive the banks as “foreign” (i.e., unfamiliar) in comparison to the local cultural order (i.e., what they are used to) . Studies show that banks lack a local customer orientation in that historically, they have been unwilling to accept rural consumers’ small savings deposits and use procedures that are considered too bureaucratic (Bell 1990). These attitudes and interpretations are unlikely to change without strong policy interventions in the “indigenization” of banking process inherited from the urban orientation of formal banks. Thus, we suggest that rural consumers’ local interpretation of service acceptability will have a negative influence on their willingness to maintain the bank savings habit, which in turn will reduce the incentive for banks to implement inclusive lending to rural consumers. The latter response by banks will generate dissatisfaction among rural consumers.

#### Awareness of Inclusive Benefits

Given that rural consumers are unfamiliar (Ramachandran & Swaminathan,2005). with banks as objects of nonlocal origin, we infer that their willingness to maintain the bank savings habit will be negatively influenced

by the lack of awareness of the benefits of inclusive lending, including loans and a credit history to improve creditworthiness. Moreover, in many BOP countries, there is an acute shortage of credit (Sivam & Karuppanan, 2002). This shortage implies that, as rural consumers fail to earn bank credit (Reddy 2001). Even though they maintain a savings account, they will interpret banks as lacking in inclusive benefits. Accordingly, we suggest that rural consumers' awareness of banking services will have a negative impact on the willingness to maintain the bank savings habit. The preceding discussion leads us to formulate the following two hypotheses:

**H1:** Rural consumers' preference for the bank savings habit is (a) negatively associated with their service acceptability experience, (b) negatively associated with their service accessibility experience, (c) positively associated with their service affordability experience, and (d) negatively associated with their awareness of the lack of inclusive benefits of banking programs.

**H2:** Rural consumers' satisfaction with inclusive bank lending practices is positively mediated by how long they maintain the bank savings habit with a given bank.

### **Controls**

In rural communities, access to inclusive credit is not driven only by demand aggregation advantage or loyalty to banks, but also by personal consumer characteristics. In particular, research suggests that changes in life events including increase in age, number of children, cultural orientation, and family participation in bank savings decisions can influence both the savings habit and credit access. As we noted previously, rural consumers are often suspicious that personal information they provide to banks may be divulged to their next of kin (Bell 1990). Given that prosperous ones are expected, in line with Indian custom (Reddy 2001), to share their wealth with extended family members, any changes in family participation in bank savings can influence the decision to terminate or retain the bank relationship. Similarly, access to bank loans is likely to positively affect satisfaction with inclusive lending practices because rural consumers are likely to save with banks for the purposes of meeting expenses for the upkeep of children and extended family members (Ramachandran & Swaminathan 2005). Given the lack of a theoretical basis for predicting the effects of personal characteristics on access to credit we treat these variables as control variables.

### **The Research Context**

We conducted our empirical testing in Karnataka's savings mobilization program. Like many states of India, Karnataka's economy is based primarily on agriculture, with sugar farming, many farmers purchasing power has been increasing. The purpose was to supplant the then-prevailing cash system for paying sugar cane farmers and introduce a banking system in the rural communities. It is important to note that, because sugar cane farmers quickly accepted the system, the government expanded the rural banking program to other farmers, including farmers of vegetables, bananas, and plantains; small-scale vendors; and fishermen throughout rural Karnataka. As we described previously in our discussion of the conceptual framework, a major inclusive growth policy objective of Karnataka's rural banking program was to make credit available to farmers and rural consumers who would otherwise have little or no access to credit. We describe the savings mobilization strategies that policy makers have used under each of the demand aggregation policy options in the hypotheses section. The discussion suggests that policy makers have emphasized the participation of both urban and rural banks as well as cooperative banks. It is our contention that the inclusion of commercial banks, instead of an emphasis on rural banks, may have led to rural consumers' resistance to the features of the entire rural banking programs as an object of nonlocal origin, thus reducing their willingness to maintain the bank savings habit. Whether this was good public policy is the basis of the empirical analysis.

## **II. Research Methods**

### **Data Collection and Sample Characteristics**

We also conducted a survey of 246 respondents in two regions of Karnataka to validate our instrument. The results of the validated measures guided our selection of the final study measures from the survey data of 2023 respondents.

Respondents were rural household members who participated in the rural banking system. They were interviewed by us at their homes. The towns and villages were randomly selected from the list of agricultural districts produced by the Ministry of Agriculture. All respondents were heads of households, or their surrogates, who had a bank savings account following the large-scale expansion of the rural banking system in Karnataka in 1981. To provide some indication of the penetration effects of inclusive lending goals of the expansion programs, Table 1 presents a distribution of respondents' evaluations of demand aggregation practices of participating banks and their demographic characteristics. The table shows that compliance with demand

aggregation policies were highest for acceptability of service (M = 3.14), followed by accessibility of service (M = 3.16), awareness of inclusive benefits (M = 2.90), and affordability of service (M = 2.75). The breakdown of the profile by banking institution indicates that the highest rates of compliance of demand aggregation policies were reported by consumers who used cooperative banks, followed by rural banks, local commercial banks, and multinational commercial banks. Similarly, cooperative bank consumers reported the highest access to lending to small scale farmers and borrowers, followed by rural consumers. The demographic profile suggests that the program attracted mostly small loan borrowers

**Construct Measurement and Validation.**

We focused our analysis on four main constructs: (1) demand aggregation or marketing activities, (2) bank savings habits (extent of demand advantage), (3) consumer satisfaction with inclusive lending practices (including loan amount and lending requirements), and (4) control variables. The specific items measuring each construct and its measurement properties are summarized in the correlation table (Table 2) and the measurement model (confirmatory factor analysis) in Table 3 (using the PROCALIS procedure in SAS 9.2). Except for demand aggregation advantage, which we operationalized as how long a consumer has maintained a bank savings account, we measured all study constructs on a five-point Likert scale.

**Common Method and Retrospective Biases.**

Because the same respondent completed the study questions (dependent and predictor variables), we took steps to minimize common variance bias. One such step was the placement of the predictor variables and the dependent variables at polar ends of the questionnaire. This step minimizes single-source error (Hulme & Mosley 1996).). In addition, respondents were asked to use their bank savings book to verify some of the information on their bank savings records. This step minimizes recall bias and enhances accuracy of the information provided.

**III. Analysis and Results**

Following the confirmatory factor analysis described previously, we performed structural equation modeling (SEM) to evaluate and test our proposed model and hypotheses. The focus of our analysis was to examine whether consumers' interpretation of their banking experiences can be modeled with demand aggregation variables, including perceived accessibility, acceptability, affordability, and awareness of program benefits. We proposed that the perceived impact of demand aggregation activities on consumers' evaluation of inclusive lending practices would be mediated by their bank savings habit. The test of the moderation effect follows the procedure that (Ahluwalia 1978).) suggest.

**The Measurement Model.**

The results of the confirmatory factor analysis and the factor covariance model show that the standard error estimates and the t-values for the factor loadings of the observed variables on each latent variable all exceed 1.96 or are significant at  $p < .05$  (Table 3). Moreover, the measurement

**Table 1 Consumer Evaluations of Demand Aggregation Activities and Sample Demographics**

Demand Aggregation Activities	Construct Mean	Commercial Banks	Regional rural Banks	Cooperative Banks	F-Value
Accessibility of service	3.13	3.08	3.13	3.18	3.72*
Acceptability of service	3.11	3.05	3.14	3.15	0.72
Affordability of service	3.04	2.53	2.8	3.81	2.4*
Awareness of benefits	3.23	2.95	3.01	3.75	2.2*
<b>Participation Rates</b>					
Average bank savings (Rs)	4936	2650	5394	6766	0.16
Loan amount (Rs)	3411	2014	3204	5015	30.35**
<b>Duration of Savings</b>					
Account (years)	11.85	4.03	6.3	7.65	8.43**
Overall satisfaction with service	3.04	2.99	2.86	3.2	14.17*
<b>Demographic Profile</b>					
Age (years)	54.9	56.5	56.2	53	1.5
Farm size (acres)	13	13.98	13.22	14.36	7.7**
Sample size	2023	290	683	1050	

\*p < .05.

\*\*p < .01.

Notes: F-values are from a multivariate analysis of variance.

**Table 2 Descriptive Statistics and Correlation Matrix for Study Variables**

Variable	M	SD	1	2	3	4	5	6	7	8	9	10
1 Bhabit	11.922	2.93	1									
2 Accept	3.14	0.87	-0.15	1								
3 Access	3.16	0.94	-0.16	0.63	1							
4 Afford	2.75	1.01	-0.04	0.07	0.11	1						
5 Aware	2.9	1.04	-.05*	-.06*	0.13	0.62	1					
6 Family	3.4	1.24	0.07*	0.13	0.14	0.18	0.19	1				
7 Childrn	8.6	5.92	-.03*	-.01*	0.01	-.01*	.02*	.03*	1			
8 Lnamt (\$)	19.4	53.5	0.01*	-.03	-.01*	0.09	0.13	0.08	0.11	1		
9 Ovsatis	3	1.19	-.02*	0.25	0.31	0.11	.01*	.03*	.03*	0.16	1	
10 Tincome (\$)	999.4	2301	-.01*	-.02*	-.01*	-.01*	.01*	-.01*	0.1	0.07	0.03	1

\*Not significant at  $p < .05$ .

Notes: BHABIT = duration of the bank savings habit (in years: a proxy for demand aggregation advantage). ACCEPT = acceptability. ACCESS = accessibility. AFFORD = affordability. AWARE = awareness of program benefits. FAMILY = family. CHILDRN = children. LNAMT = loan amount. OVSATISF = overall satisfaction with inclusive lending practices. TINCOME = total income.

**Table 3 Confirmatory Factor Analysis of Multi-Item Study Variables**

	Determinants	Cronbach's Alpha	Standard Error	Factor Loading	t values
<b>Awareness of Banks</b>		0.7			
1	Bank loans through a savings history		0.01	0.88	7.85
2	Security benefits		0.03	0.48	12.03
3	Benefits to other farmers and poor consumers		0.01	0.91	4.16
<b>Acceptability</b>		0.82			
1	Uncomfortable with required reading and writing		0.01	-.82	-6.04
2	Banks are not user-friendly		0.01	-.74	-4.08
3	Too much paper work		0.03	-.81	-5.81
4	Uncomfortable with banks		0.04	-.79	-4.70
5	Banks are not suitable for poor people		0.1	-.70	-3.90
<b>Accessibility</b>		0.71			
1	Nearness of banks		0.02	0.97	3.2
2	Proximity of service		0.03	0.57	6.71
3	Delivery to inaccessible villages		0.01	0.65	4.5
4	Accessible in times of emergency		0.03	0.7	5.4
<b>Affordability</b>		0.84			
1	Affordable service		0.1	0.83	6.69
2	Affordable interest on loans		0.07	0.48	6.29
3	Government backing of deposits		0.02	0.84	4.7
4	Accuracy of service		0.03	0.7	3.14
<b>Satisfaction</b>		0.72			
1	With bank credit/loans		0.04	0.71	4.1
2	With loan amount		0.09	0.72	6.4
3	With approval procedure		0.03	0.65	5.4
<b>Family Influence</b>		0.68			
1	Loyalty to family over individual		0.09	-.50	-5.20
2	Sacrifice individual for family welfare		0.08	-.72	-8.90
3	Emphasis on collective over the individual		0.06	-.76	-8.60

Notes:  $\chi^2 (194) = 350$ , goodness-of-fit index = .89, root mean square error of approximation = .073, root mean square residual = .067, and comparative fit index = .90.

Model shows a relatively good fit:  $\chi^2 (194) = 350$ ,  $p < .01$ , and yields a ratio within the 2.0 threshold; goodness-of-fit index = .89; root mean square error of approximation = .073; root mean square residual = .066; and comparative fit index = .90. These results indicate that the specified relationship among the demand aggregation, the bank savings habit, and satisfaction with bank lending practices credit access are significant

**Proposed Model and Hypothesis Testing**

The results of the structural model summarized in Table 4 show that the overall model is very good. For the proposed model, the chi-square statistic was 1,890 for the partial mediation model, 1,940 for the no-mediation model, and 1,910 for the full-mediation model. However, all the other diagnostic indexes for the partial-mediation model were superior. In addition, Columns 5 and 6 present separate analysis for existing

customers (n = 990) versus new customers (n = 1038) after the 1981 large-scale expansion. Both analyses were conducted by repeating the partial mediation model on the two groups, following (Hair et al.'s 2006) recommended procedure for group comparisons.

**The Direct Influence of Rural Interpretation of Demand Aggregation Activities**

The results of the SEM analysis addressing the first hypothesis show that all four demand aggregation activities are directly linked to rural consumers' interpretations of their banking service experiences, as we predicted. The prediction of the bank savings habit by consumer experience with service acceptability (H1a) is significant and negative ( $\beta = -.10, p < .001$ ). The prediction of the banking savings habit by consumer experience with service accessibility (H1b) is significant and negative ( $\beta = -.08, p < .05$ ). The prediction of the bank savings habit by consumer experience with service affordability (H1c) is also significant but positive ( $\beta = .15, p < .01$ ).

**Table 4. Standardized Estimates and Model Fit: Bank Savings Habit as a Mediator of Demand Aggregation Activities to Consumer Satisfaction with Inclusive Lending Practices of Banks**

Antecedents of the Bank Savings Habit (Demand Advantage)	Partial Mediation	No Mediation	Full Mediation	Existing Customers	New Customer
Acceptability --> savings habit	-.10**	-.10**	-.10**	0.04	-.09*
Accessibility --> savings habit	-.08*	-.08*	-.08*	.11**	-.01
Affordability --> savings habit	.15**	.14**	.15**	0.07	.17**
Awareness --> savings habit	-.16**	-.15**	-.15**	-.06	-.25
Family (control)--> savings habit	-.05*	-.05*	-.05*	.06n.s	-.12
Income (control) --> savings habit	0.03	0.04	0.06	0.04	0.06
Children (control)--> savings habit	.09**	.09**	.09**	0.08	.09**
Loan amount--> satisfaction	.01n.s.	.01n.s.	0.02	0.02	0.03
<b>Antecedent of Satisfaction with Bank Credit Access</b>					
Savings habit --> satisfaction (mediator)	.04n.s.	-	0.01	.11*	-.01
Accessibility --> satisfaction	.22***	.22***	-	.30**	.22***
Affordability --> satisfaction	-.02n.s.	-.01n.s.	-	.04n.s.	-.06n.s.
Acceptability--> satisfaction	.11**	.11**	-	.12**	.03**
Awareness --> satisfaction	.09*	.09*	-	.02n.s	.16n.s
Children --> satisfaction	.02n.s.	.02n.s	-	.02n.s.	.01n.s.
Family --> satisfaction	-.03n.s.	-.04n.s.	-	-.03*	.04*
Income --> satisfaction	.11n.s.	.03n.s	-	0.04	0.05
Loan amount--> satisfaction	.21***	.15***	-	.15*	.11*
chi square (d.f.)	1,890 (240)	1,940 (241)	1,910 (248)	1,889 (240)	1,892 (240)
RMSEA	0.06	0.07	0.13	0.07	0.08
SRMSR	0.02	0.06	0.07	0.05	0.05
CFI	0.99	0.99	0.94	0.99	0.98
NNFI	0.96	0.92	0.94	0.92	0.93
GFI	0.99	0.99	0.97	0.99	0.99
AIC	467	445	453	467	467
Schwartz Bayesian	660	597	593	660	660

\*p < .05

\*\*p < .01.

\*\*\*p < .001.

N.s.Not significant.

Notes: Partial mediation is the bank savings habit as a partial mediator of demand aggregation activities (service accessibility, affordability, and office environment, and control variables) to satisfaction with bank lending practices. Items for each demand aggregation construct are measured on a five-point scale with 1 = lowest and 5 = highest. RMSEA = root mean square error of approximation, SRMSR = standardized root mean square residual, CFI = comparative fit index, NNFI = nonnormed fit index, GFI = goodness-of-fit index, and AIC = Akaike information criterion.

The prediction of the bank savings habit by consumer awareness of program benefits is significant and negative ( $\beta = -.16, p < .05$ ). Among the control or personal factors, only the prediction of bank savings habit by family orientation is significant ( $\beta = -.05, p < .05$ ). This finding confirms the expectation that more family-oriented rural consumers are less likely to maintain a bank savings habit because of extended family obligations. The lack of significance of loan amount ( $\beta = -.01, p < .10$ ) and income ( $\beta = .02, p < .10$ ) implies that both factors neither hamper nor enhance the formation of the bank savings habit necessary to generate inclusive credit lending by banks.

### **The Predictors of Rural Consumer Satisfaction with Inclusiveness Lending Practices of Banks**

The results for the inclusive lending model show that the prediction of consumer satisfaction with inclusive lending practices by bank savings habit (aggregate demand advantage) is not significant in the partial mediation model ( $\beta = .10, p < .10$ ). The prediction of consumer satisfaction with inclusive lending practices by service acceptability experience is significant and positive ( $\beta = .11, p < .01$ ). The prediction of consumer satisfaction with lending practices by service accessibility experience is significant but positive ( $\beta = .22, p < .001$ ), the prediction of consumer satisfaction by awareness of inclusive benefits is significant and positive ( $\beta = .09, p < .05$ ), and finally the prediction of consumer satisfaction by personal/consumer factors is only significant by loan amount received ( $\beta = .21, p < .001$ ). The lack of significant prediction of consumer satisfaction by affordability experiences ( $\beta = -.02, p < .10$ ), family orientation ( $\beta = -.03, p < .10$ ), and number of children ( $\beta = .02, p < .10$ ) implies that these characteristics did not enhance or impede rural consumers' evaluative judgments of the inclusiveness of bank lending practices.

### **Comparative Penetration Effects of Inclusive Lending**

To provide explicit assessment of the impact of inclusive lending growth goals, we examine the results of the separate SEM analysis for existing versus new customers in Columns 4 and 5 of Table 4. Existing customers are those who held savings accounts before the 1981 large-scale expansion. New customers are those who opened a savings account or a checking account after 1981. Respondents relied on their passbook savings accounts to recall the year of first use of formal banking for savings. Examining the standardized beta coefficients for existing customers (column 4), we observe that the bank savings habit is significantly and positively associated with accessibility ( $\beta = .11, p < .01$ ), while loan amount is significantly associated with satisfaction with lending practices ( $\beta = 0.15, p < .01$ ). In contrast, among the new customer group, the bank savings habit is significantly and negatively associated with acceptability ( $\beta = -.09, p < .05$ ), positively associated with affordability ( $\beta = .17, p < .01$ ), negatively associated with awareness ( $\beta = -.25, p < .001$ ), and negatively associated with family orientation ( $\beta = -.11, p < .05$ ). Finally and most importantly, the prediction of customer satisfaction with lending practices by the bank savings habit (demand aggregation advantage) is significant in the existing customer model ( $\beta = 0.11, p < .01$ ) but not in the new customer model ( $\beta = -.01, p < .10$ ), implying that the generation of demand aggregation advantage benefited mostly existing customers and not new customers.

## **IV. Discussion Contribution to Public Policy**

Concurring with (Reddy 2001) and (Sivam & Karuppanan 2002) expositions on the role of marketing and marketing's contributions to society, respectively, our study provides several empirically grounded implications for appreciating a public policy framework when pursuing inclusive growth and poverty reduction policy in BOP economic development programs. First, rural consumers' interpretation of their experience with demand aggregation activities were all linked to demand aggregation advantage, as measured by the bank savings habit. However, except for affordability, all the demand aggregation activities were negatively linked to consumers' bank savings habits or demand aggregation advantage for banks. Considering the critical importance of demand aggregation for encouraging compliance with inclusive growth goals this conclusion suggests that policy makers need to reevaluate the policy framework used in Karnataka to increase the level of generation of the bank savings habit. The study suggests that overall, lack of compliance with demand aggregation activities reduced the sustainability of the bank savings habit among a considerable proportion of rural consumers. Second, the results indicate that satisfaction with inclusive lending practices was much higher among existing customers than new customers because of the lack of the sustainability of the bank savings habit. A comparison across existing and new consumers revealed that demand aggregation advantage was directly linked to satisfaction with inclusive goals among existing consumers but not new consumers. This finding also leads us to conclude that the policy framework used in Karnataka failed to take into consideration the preferences of rural consumers for services that are more compatible with their local banking needs. We suggest that this further reflects a lack of rural orientation regarding banks' demand aggregation activities, in part because policy makers in India relied on as many urban (commercial banks) as rural banks. To that end, and concurring with (Dawar & Chattopadhyay 2002) suggestions policy makers should continue to search for the optimal mix of urban and rural banks when seeking to promote inclusive lending to rural consumers and the urban poor.

### **Contributions to Marketing Theory**

Our findings contribute to the marketing literature by empirically operationalizing the classic aggregate demand advantage theory that Sheth (2011) proposes. Given that this theory dramatically challenges the received wisdom in marketing, especially the demand differentiation theory, we believe that our study makes significant contributions to marketing theory in several respects. First, we confirm that the demand aggregation framework can be used to model rural consumers' response to policy initiatives in economic development

programs, especially in validating the antecedents of the market aggregation advantage theory and its impact. We show evidence that accessibility, acceptability, affordability, and awareness directly predict demand aggregation advantage. However, contrary to the implicit positive role of demand aggregation advantage, our findings suggest that this linkage is mostly confined to existing customers and not new customers. Among new customers, this linkage is mostly negative, in part because of a negative attitude toward and interpretations of the meaning of demand aggregation activities in banking context. Thus, this study suggests that while Sheth's conceptualization about the role of demand advantage does have credence in Karnataka's context it may apply more to existing consumers than to new consumers in inclusive economic development programs. The limited focus on lending to new consumers may reflect the unwillingness of banks to actively undertake full demand aggregation of new consumers, perhaps because of the cost involved in marketing communications. Second, this research contributes to the marketing and public policy literature streams by responding to (Khan & Mahapatra, 2009) suggestions for more studies on the importance of savings. Moreover, this study complements (Parikh 2006) research on sustainable consumption by examining rural consumer inclusiveness and public policy in a BOP Indian State context.

### **Study Limitations and Further Research**

Despite the due diligence given to the theoretical development, the discussion of the hypotheses, and the context of the study, this research inevitably suffers from some weaknesses, including (1) cross-sectional study design, (2) limitation of the sample to one BOP State, and (3) marginal to acceptable scale measurement properties. These characteristics pose generalizability questions in the absence of further replications and validations. Moreover, as in any cross-sectional data analysis, any causal linkages in this study cannot be asserted with full confidence because these linkages can change over time. In addition, the relationships expressed between the study constructs reflect consumer views and not those of financial service providers.

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