

Banks Plays a Pivotal Role in Entrepreneurship Development

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ABSTRACT

Banks contribute significantly and positively in advising and providing loans for the development of entrepreneur in India. Banks are essential for the survival and their unique role as the engine of growth in the country. The central government organization regulates banking and non-banking financial institutions. Entrepreneurship development is a concept that has to do with the formation, financing, growth and expansion of business or enterprises in an economy. This paper focus on the role of banks in the development of entrepreneurship in Mysore. It is aimed at to find out problems faced by entrepreneurs in obtaining the loans from the banks for their startups/expansion and the major difficulties faced by the banks towards sanctioning and recovery of the loans. This paper also focused on factors considered by banks before lending loans to entrepreneurs.

Keywords-- Banks, Development, Entrepreneurs, Financial Institutions, Loans, Problems

I. INTRODUCTION

Entrepreneurship has been one of the most popular subjects that have aroused the interest of students and young entrepreneurship in large measure. The importance of the subjects is magnified manifold in today's economic climate. Entrepreneurship introduces a critical element of dynamism into an n economic system. Entrepreneurship development is a procedure where the knowledge and skills of the entrepreneurs are improved via multiple classroom and training programs. And the basic idea behind this program is to grow the number of entrepreneurs in the world. With the help of the entrepreneurship development programs, the pace at which new ventures or businesses are created becomes a lot more better than it was before the program. And if we look at the larger picture, this program creates rooms for employment and enhances the economy of the country as well as the business.

Entrepreneurship development is the process of enhancing the entrepreneurial knowledge and skills via structured training programmes. It deals with the study of entrepreneurial behaviour, dynamics of business, and its

development and expansion. The objectives of entrepreneurship development programmes are to increase the knowledge and skill of existing entrepreneurs and encourage others to become one. Ultimately, it helps in increasing the number of such individuals in an economy.

Entrepreneur development focuses on training individuals who are interested in commencing their venture or expanding their existing one. Furthermore, it concentrates more on encouraging innovation and evaluating the growth potential of an enterprise. This development process helps new firms to perform better and achieve their goals and expand their businesses. As a result, the economy of a nation also improves. Moreover, it enables entrepreneurs to develop and manage their business better along with the financial insecurities associated with it.

An increase in the rate of development of entrepreneurship ventures alleviates the problem of unemployment in an economy. Additionally, it decreases the issue of stagnation and increases competition in the market. A process like this aims to develop the competence of an entrepreneur and his/her venture. Therefore, it enhances entrepreneurial objectives and encourages more people to become entrepreneurs.

II. ROLE OF BANK IN ENTREPRENEURSHIP DEVELOPMENT

The banks play an important role in the development and promotion of entrepreneurship. There are entrepreneurs out there who want to start their own business but lack capital. Banks are one of the ways that entrepreneurs use to fund their businesses. It is difficult for most entrepreneurs to raise funds through equity because they lack financial knowledge. And, without funds, businesses can't grow. So loans are the primary source of funding for entrepreneurs. The role of the banks is of great importance in economic development. One of the primary functions of banks is savings accounts. People deposit money in their savings accounts for a small amount of interest. The bank further lends the money to business owners or individuals looking for consumption or

investment. The investment further leads to capital formation, which is excellent for economic growth. The bank charge higher interest rates on loans than the interest rate for the deposits. Hence, the banks also profit from this. The banks also use the deposits for other investments in the country. Thus, contributing to the economy. Also, the government can benefit by taking financial help from the bank. The government can invest the funds in securities and other investment plans. Banks can also provide employment opportunities as banks have branches in different cities. People can apply for jobs in banks. So it decreases the unemployment rate of the country.

III. REVIEW OF LITERATURE

Anitha D. Pharma and Dr. R. Sritharan (2013) on "Problems being faced by women entrepreneurs in rural areas" with an objective of motivational forces and relationship between socio economic background of women entrepreneurs with existing entrepreneurial traits. The study area was Erode, Chennai, and selected the respondents scientifically to 90 respondents and statistical tool used for the study are percentages and chi square and from the study it was revealed that many women entrepreneurs are ready to face the challenges associated with the setting up the enterprise. In a study by Manjunatha.K (2013) with an objective of finding the problems that are faced by the rural women entrepreneurs like lack of financial assistance, support from the family, marketing techniques, lack of government schemes, lack of proper training etc were discussed in the paper. An attempt was made by Rajesh M. Patel (2015) This paper put effort on the issues faced by women entrepreneurs in rural area and examine the opportunities available for rural women entrepreneurs and explain the different schemes available for the implementation and various problems faced by the rural women entrepreneurs. P. Venkateshwarlu and P. S. Ravindra (2015) was done with an aim of finding the financial problems, institutional and technological aspects that effect the rural entrepreneurs of Visakhapatnam District. It was found that majority of rural entrepreneurs are facing several problems due to lack of basic amenities in rural areas like lack of educational, financial and marketing problems. An attempt was made by Shakunthala Devi Jakkula and Dr. K. Dhanalakshmi (2017) The main objective of the study was to focus on motivational factors and socio-economic factors of the respondents in Guntur District. The data was collected from 120 respondents with selective random sampling technique and the tools used for analysis was percentage method which reveals the fact that majority of the respondents are not having support and cooperation from the family in doing business, lack of training and following profit maximization strategy. The author has

suggested that to provide proper training to cope up with the financial problems and marketing.

IV. NEED OF THE STUDY

The study finds significance in the present day context to understand the problems faced by entrepreneurs in obtaining the loans and difficulties faced by the banks towards sanctioning and recovery of the loans. The present study also attempted to study the role of banks in the development of entrepreneurship.

V. OBJECTIVES OF THE STUDY

1. To know the role of Banks in the development of entrepreneurship.
2. To analyze problems faced by entrepreneurs in borrowing loans.
3. To study the factors considered by banks before lending loans to entrepreneurs and problems faced by banks.

VI. METHODOLOGY

This study was conducted on the basis of primary as well as secondary. The study was conducted in Mysore. A total of 50 respondents were selected as a part of sample.

VII. ROLE OF BANKS IN ENTERPRISE DEVELOPMENT AND FINANCING

There is no gainsaying the fact that activities of banks reflect their unique role as the engine of growth in any economy. Banks especially commercial and specialized ever remain crucial to the growth and development of entrepreneurship, and their operations provide a solid backing capable of encouraging entrepreneurs in viable and profitable ventures. The role of banks goes beyond their traditional functions which if entrepreneurs avail themselves of could be of tremendous assistance in meeting their desired needs. There are several ways banks could get involved in small and medium scale enterprise finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of special unite for financing SMEs. Along the lines of the main functions of banks mentioned above, we shall now examine their role in entrepreneurship development and enterprise financing. And; for the purpose of convenience and proper understanding, the roles can be categorized as follows:

1. **Statutory Roles-** These consist in the main the functions for which banks were created in the first place. Such roles are for example accepting of deposit

and safekeeping of same, transfer of money, giving of loans and advances, etc. By accepting deposit of customers especially entrepreneur-customers, the banks will be providing security for customers' money and giving them opportunity to use their deposit to borrow more money from the banks to finance the running of their enterprises. By funds transfer, money is moved from one account to another and from one place to another. A good payment system which provides speedy fund transfers is vital for the efficient working of an economy. And with the development of information technology in banks, the speed of service delivery has improved while the cost of doing business has reduced tremendously. The services have enabled entrepreneurs to make transactions outside their immediate environment without necessarily having to carry money about.

2. **Financing Roles-** The primary reason that banks want deposits is to enable them grant loans and advances from which they earn interest income. Extension of credit to the economy for the financing of business enterprises is the core link that banks have to the real sector, acting like a catalyst and contributing to the growth of the economy of the country. By financing entrepreneurs' production, consumption and commercial activities, banks lubricate the process of economic growth with multiplier effect across all sectors of the economy, Oboh (2005). The various methods by which banks can lend money to entrepreneurs include overdraft, medium and long term loans, debt factoring, invoice discounting, asset finance including commercial mortgages and equity finance. Up until 1997, when compulsory sectorial allocation of credit was phased out as a policy instrument used by the monetary authorities in

Nigeria, mainstream banks were made to meet specified targets in their lending to the productive sectors operated by entrepreneurs and businessmen. In 2001, the mainstream banks under the aegis of the Bankers' Committee also decided to commit 10% of their profit to equity investment in SMEs under the Small and Medium Industries Equity Investment Scheme (SMIEIS).

3. **Business Investment Promotion Roles-** Because of the specialized and professional status of banks, they are in a position to play investment promotion roles to entrepreneurs. Such roles may include management of investment for customers, advice on sustainable lines of investment to follow by analyzing the pros and cons of each investment alternatives to the entrepreneur-customer.
4. **Advisory, Guaranty and Consultancy Roles-**In addition to the normal lending and other service, banks now also engage in business advisory, guaranty and other consultancy services which help immensely in the promotion and financing of entrepreneurship activities in the country. It is well known fact that some enterprises/businesses fail simply because of mismanagement, faulty investment decisions, inefficient capital and foul planning etc.
5. **Other Areas in which Banks Could Offer Advisory and Consultancy-**services to the SMEs include methods of control systems or measures to be adopted by the enterprises with respect to defined lines of business trend of challenges. Advice on methods of raising capital or reorganization of a company to bring about the desired level of efficiency. Advice on tax and tax related matters. Status enquiry services could be offered to effect credit purchases within the domestic market or overseas.

Table 1: Problems faced by entrepreneurs in obtaining the loans from the banks

Problems	HA	A	DA	HDA	Mean Score
Lack of initial capital	38	10	---	2	3.46
Lack of knowledge of available sources of finance	35	11	---	4	3.44
Lack of credibility	37	10	---	3	3.32
Weak business plans	30	15	---	5	3.30
Poor credit history	25	20	---	5	3.34
Interest is too high	35	11	---	4	3.44
Lack of collateral	39	10	---	1	3.40

From the above table it shows problems faced by entrepreneurs in obtaining the loans from the banks. It is noted that the problems were highly agreed and agreed. Entrepreneurs highly agreed on lack of initial capital (3.46), lack of knowledge of available source of finance

(3.44), Lack of credibility (3.32), Weak business plans (3.30), Poor credit history (3.34), Interest is too high (3.44), and Lack of collateral (3.40).

Table 2: Factors considered by banks before lending money to entrepreneurs

Factors	Yes	No
Capacity	40 (80%)	10 (20%)
Capital	42 (84%)	8 (16%)
Collateral	45 (90%)	5 (10%)
Character	40 (80%)	10 (20%)
Conditions	42 (84%)	8 (16%)
Age	41 (82%)	9 (18%)
Experience	30 (60%)	20 (40%)
Loan Amount and Repayment Period	45 (90%)	5 (10%)

From the above table factors considered by banks before lending money to entrepreneurs. Capacity (80%) banks will evaluate your repayment history with others and the amount of debt before providing the loans. Capital (84%) banks will review your financial history and record, and also evaluate your company's capital. Collateral (90%) bank may require collateral or security from the applicant to cover its risk. Character (80%) A lender will also check company's history, references, and reputation of organization before approving your loan application. Conditions (84%) Another important thing that a bank looks at is the condition of the economic climate in your industry, over which you may not have a lot of control. Age (82%) In addition to the factors mentioned above, banks also consider your age while evaluating a loan application. Experience (60%) critical factor that banks consider is an experience. Loan Amount and Repayment Period (90%) In addition to the loan amount, banks also take into consideration the repayment period.

The major causes of these problems as analyzed could be classified into:

1. Adversity
2. Mismanagement

Lending, being a vital function in banking operation is no longer what it used to be. This is because lending entails a lot of risks on the part of the lending banker. The lending policies are no more strictly adhered to. Issue of loan recovery problems arises when the repayment of the granted loan does not follow as planned and agreed. If not properly checked, it will have an adverse effect on the operations of the banks and will pose a threat to their expectations. That problem of loan default stemmed from the fact that there is unavailability of security to be disposed by banks to realize funds and also customer's attitude towards loan payment.

VIII. SUGGESTIONS

The government must evolve appropriate policies to help women entrepreneurs. Networking facilities must be provided as well as adequate entrepreneurship awareness training should be provided using the help of

local NGOs. Credit facilities must be made available and marketing help must be provided. All these will help foster a culture of entrepreneurship among women in India.

IX. CONCLUSION

The role of entrepreneur in economic development is also being recognized and steps are being taken to promote entrepreneurship. entrepreneurship must be moulded properly with entrepreneurial traits and skills to meet the changes in trends, challenges global markets and also be competent enough to sustain and strive for excellence in the entrepreneurial arena. Banks benefit from their involvement in the development and financing of SMEs by increasing their client base and thus diversifying into new areas of business that will eventually reflect positively on the banks' portfolio. This is in addition to the positive outlook on the banks, as they are seen to be playing a role in developing the community and the economy.

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