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**A STUDY ON THE ROLE OF FINANCIAL BANKS IN PROMOTING THE ENTREPRENEURSHIP****Dr. SAFIA FAROOQUI****DIRECTOR****Dr. D. Y. PATIL VIDYAPEETH'S CENTRE FOR ONLINE LEARNING****PUNE****ABSTRACT**

*The issue of getting finances for the small businesses and entrepreneurs is always been in debate and remain unresolved in many countries due to unavailability of qualified venture capitalists. The developing and emerging economies set the micro finance banks for this purpose, however, it is argued that the owner and entrepreneur face many problems like collaterals, documentation, etc. This paper focuses on the role of financial banks in promoting the small business and entrepreneurial culture in Pune in providing credit. Financial institutions, most especially the banks have important roles to play in the development of entrepreneurship in the country. Financing is one of the essential requirements for small businesses and entrepreneurs. Lack of finance represents major obstacles to their growth and development. The result of study shows that the levels of business cooperation and information sharing and quality of business have an important significance on the success of loan application. Furthermore, the results also support that the bureaucracy of bank in terms of loan documents requirement and loan evaluation procedure can make small business hesitate when applying for loans. The paper also propose that Government should encourage small scale enterprise through their micro credit scheme, to give soft loans and re-introduce small business credit scheme so that the beneficiaries can use them to run the small-scale enterprises.*

**KEYWORDS**

financial banks, small and medium enterprises, entrepreneurship.

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**INTRODUCTION**

The effective and efficient supply of finance to the small business sector has been seen as one of the most important influence on its success. Different theories suggest that small business sector in evolving economies faces greater credit constraint than those in developed economies (Jane, S. Pollard, 2003). However, there are limited studies of credit gap for small businesses and entrepreneurs in the gulf countries. In this situation, a study of the nature of credit gap between commercial banks and small businesses/entrepreneurs is of great significance in terms of theoretical contributions and policy implications. However, in order to analyse the problem, the selection of a valid and accurate measurement is important to ensure the quality of research findings. But this is not a simple task and depends much on the possibility of information access, especially when the measurement is based on abstract and intangible constructs, such as the perceptions of bank manager and business entrepreneur's points of view (Lawrence et al, 2000).

The purpose of this paper is to measure the credit constraint of small business / entrepreneurs' sector in Pune. In the data collection phase, qualitative data was collected through the structured interview with bank managers.

**LITERATURE REVIEW**

The problems of market failure in finance provision can be related to such commercial criteria as lack of record, lack of security for loan, poor business location, type of firm, industrial sector, type of entrepreneur, poor past financial record, rapid expansion and high level of risk (Alain Fayolle and Kiril Todorov, 2011).

In this situation, information can play an important role in reducing the level of market failure in the credit market. Therefore, understanding of asymmetric information nature can reduce the information gap between lender and borrower, and this can result in reducing the level of credit finance gap for small business/entrepreneurs in the capital market (Allen and Engert, 2007).

The current theories suggest that both small business sector in emerging economies and small business sector in mature market economies encounter the problem of finance supply due to the asymmetry of information. Muhsin and his colleagues investigate the causality between financial development and economic growth for Middle East and North African countries and found no causality between financial development and economic growth for all the measured financial indicators (Muhsin, Kar et al, 2011).

Much evidence suggests that the private sector, especially small business, plays a dynamic role in many emerging countries as they have moved from central planning to market economies.

**RESEARCH METHODOLOGY****DATA COLLECTION**

The target population of paper is small businesses with less than 40 employees that have been trading at least one year in Pune. The intention of the survey was to collect data from a sample of small businesses considered to have transaction with local commercial banks. The research sample focuses on the private small businesses operating mainly in manufacturing, trading and service industries that have registered their businesses with the chamber of commerce.

The survey questionnaire is designed and sent to the owners and managers who involve in the investment project or in transactions with the local commercial banks for loans in the small businesses. Basing on the list of private companies that are monitored by the Chamber of commerce, there were about 150 questionnaires to be distributed to the owners and managers of private small businesses in Pune. Total 76 questionnaires collected were useable for the analysis many questionnaires were discarded from analysis because these questionnaires were not fully completed.

**HYPOTHESES AND REGRESSION MODEL**

In general, the credit constraint of small business sector could be measured by asking for direct number of loan application of small business accepted or rejected by the database of commercial banks or by looking at small business owner's report relating to the success or failure of loan application. However, in practice it is impossible to access such bank information related to the loan application's success or failure.

A regression model analysis is used to express the causal relationship between the credit constraint of small businesses, regarding as dependent variable and factors that hinder the possibility of small businesses in obtaining bank finance, regarding as independent variables. The credit constraint can be measured by small business owner's perception on the success or failure of loan application submitted to local commercial banks by small businesses.

Hypotheses were developed including internal and external influential factors on the possibility of small businesses in obtaining bank finance.

1. The better the business cooperation with bank, the higher the level of credit access for small businesses.
2. The higher the quality of business, the higher the level of credit access for small businesses.
3. The higher the transparency of business information, the higher the level of credit access for small businesses.
4. The higher the quality of commercial bank services, the higher the level of credit access for small businesses.

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where:

Y: Failure or success of loan application submitted by small businesses to bank

X1: Business cooperation with bank

X2: Quality of business

X3: Property rights

X4: Equality in credit access

## EMPIRICAL ANALYSIS

A factor analysis was performed to reduce the original set of variables and created a new set of variables in form of new factors. These new factors with eigenvalue equal or greater than 1 were selected and named as property rights; quality of bank services; business cooperation with bank; equality in accessing bank finance; quality of business; transparency of business information and bank bureaucracy.

### PROPERTY RIGHT

The result from analysis shows that there is no evidence to suggest that respondents' perception of the effectiveness of property rights have a significant impact on the capability of small businesses to access bank finance ( $p > .05$ ). It means that the result doesn't support the hypothesis. This can be explained that not only business owners, but also normal asset owners have difficulty in registering their properties with local governmental agents, so there is no distinction between people who are great constrained and those who are not. In fact, the property rights, private ownership and asset transferring rights are defined and protected in law book.

### QUALITY OF BANK SERVICES

The test result shows a strong significance at level of p-value less than 0.01 (.00). The evidence suggests that quality of bank services has a strong influence on the level of loan application success submitted by small businesses. In other words, the test result strongly supports the hypothesis. Small businesses have difficulty in accessing long-term loan for their growth expansion or technology innovation that requires a longer time to get back the investment capital. In addition, small businesses are also at disadvantage when bank evaluate their collaterals; therefore, many of small businesses could not get enough fund for their needs because the real value of assets was far away from the evaluation value made by bank. In reality, small businesses face higher requirements of loan application documents and securities, but lower probability of loan approval that leads to the higher ratio of loan failure for small businesses.

### BUSINESS COOPERATION WITH BANK

The evidence from the test supports that the business cooperation with bank has an influence of on the success of small business loan application when the p-value is lesser than 0.01 (.00). The result also strongly supports the hypothesis. It is recognized that the level of business belief on bank and versus are quite questionable. Further examination of the mean values of the variables which comprise overall business cooperation with bank recognizes that small businesses do not believe in bank officials because they state that business information, such as information related to performance, investment or finance can be misused by credit officials and in this case that can harm small business benefits.

### EQUALITY IN CREDIT ACCESS

As discussed above, there is likely to be an ideological gap in offering bank finance from the state commercial bank to small business sector in comparison with state sector. The result of test shows a significance on the equality in supplying bank credit for small business sector in comparison with other economic sectors in national economy, it is significant at level of p-value less than .05 (.05) and this result supports the hypothesis.

### QUALITY OF BUSINESS

The result showed that the quality of business had a strong impact on the success of small business in accessing bank finance. It is significant at level of p-value less than .01 (.000), and the result strongly supports the hypothesis. The result also shows that if the flow of information exchange between bank and small business was improved better, the chance for small business to access bank finance was higher. In other words, if bank had more information related to the business performance, especially accounting and financial information, the credit gap can be reduced between small businesses and commercial banks.

### TRANSPARENCY OF BUSINESS INFORMATION

As discussed, information plays an important role in the success of loan transaction between small businesses and commercial banks. However, surprisingly there is no evidence from respondent's perception to suggest that the business information transparency had influence on the ability of small business loan application success. It means that the result doesn't support the hypothesis. This can be explained that the level of mutual belief between the commercial bank and small business is quite far, and the cost of information collecting for lending decision is also so high, so commercial banks have to apply a strict strategy of loan security toward small business, and this makes small business feel discriminated in accessing bank finance. Furthermore, it is quite understandable for bank strategy that in an imperfect market in terms of lack of institutional market support, shortage of legal framework and asymmetric information problem, the bank have to reduce the risk for loan by requiring higher loan securities. Therefore, business information cannot play an essential role, regarding as an assurance in loan evaluation process.

### BUREAUCRACY OF BANK

The result showed a strong significance of bureaucracy of bank on the success of small business loan application with p-value less than .01 (.001) and this result strongly supports the hypothesis.

## CONCLUSION

The result of study shows that the levels of business cooperation and information sharing and quality of business have an important significance on the success of loan application. It is obvious that asymmetric information can make the credit gap worse. When the commercial banks have not enough information about small business or it is quite costly for collecting such information, the bank behaviour in this case is to require higher loan security that can lead to the higher failure ratio of loan application from small business.

It can be said that the higher the level of business cooperation and information sharing and quality of business, the higher the level of loan success.

The result also supports that the bureaucracy of bank in terms of loan documents requirement and loan evaluation procedure can make small business hesitate when applying loan for state commercial banks.

The findings of study contribute not only the current theories, but also policy implication as well.

It also helps researcher to produce a deeper and more reliable results in evaluating the nature of the credit constraint faced by small business sector in the credit market in transition economy. Actually, entrepreneurship development is the need of the hour, therefore authorities and the banks should actively involve themselves in this task. Banks benefit from their involvement in the development and financing of small businesses by increasing their client base and thus diversifying into new areas of business. These eventually reflect positively on the bank's portfolio. This will be in addition to the positive outlook on the bank, as they are seen to be playing a role in developing the community and the economy.

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