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THE ROLE OF BANKS IN SUPPORTING ENTREPRENEURSHIP AND INNOVATION

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ABSTRACT

This study examines how banks may support innovation and entrepreneurship, with special focus on the problem of access to loans by entrepreneurs and the criteria used by banks. The research approach adopted was descriptive with the use of purposive sampling that ensured relevant participation. In all, 180 entrepreneurs in the Mysore region were included in the sample. Standardized questionnaires and in-person interviews were used to collect information on services provided by banks, loan approval procedures, the problems owners face, and requirements for lending. While there are positive outcomes among business owners who are able to acquire loans, interest rates, poor credit history, and collateral requirements are some of the problems that are common nowadays. Furthermore, it does nothing for banks to make market access easy and promote innovation funding. The research also identifies lending decision factors with loan terms, financial capability, and collateral as some of the key variables. In light of the findings the research recommends improved flexibility of loan terms, greater entrepreneurial development support, and enhanced financial literacy in creating an atmosphere that is more conducive to innovation and expansion.

Keywords: Banks, Entrepreneurship Development, Innovation, Entrepreneurial Challenges, Digital Banking

1. INTRODUCTION

One of the most widely talked-about subjects that has been highly interesting to students and youths alike is entrepreneurship. In the current economic climate, the importance of the subjects is much amplified. Entrepreneurship injects an essential dynamism into an economic system. Many countries have debated and still not solved the issue regarding how small businesses and entrepreneurs can gain funding due to a deficiency of experienced venture capitalists. For such reasons, microfinance banks are set up in developing and emerging countries; however, it is still argued that owners and entrepreneurs face a lot of hassles, including paper work and collateral. Even banks face problems while granting loans and receiving loans. Hence, the objective of this paper is to identify the problems faced both by banks and the borrowers that is entrepreneurs. Since banks perform numerous legislative and financial tasks, they tend to be crucial for entrepreneurship development and funding.

By accepting deposits, making money transfers, and offering loans, they protect money held in clients' accounts while making more funds available to business owners to undertake their ventures. The development in information technology in banks has streamlined service delivery and reduced corporate running costs. Through the loan-making from deposits, banks facilitate business owners in their productive, consumptive, and trading activities, leading to economic growth. They offer equity financing, medium- and long-term loans, and overdrafts as their available financing options. By managing their client's account and guiding them on investments which are more environmentally friendly, banks also encourage investment by corporations. To encourage entrepreneurship, they have facilities to advise, guarantee, and even consult with clients. They have dedicated skills in capital raising, control systems, tax issues among other business areas for SMEs.

2. LITERATURE REVIEW

Zavadska, D. (2018) asserted that Ukraine's development success in the context of the nation's transition to the model of its creative development facilitates a clear selection of priorities, the most crucial of which is to ensure rapid economic growth. It has been shown that banks play a part in reproduction, which is related to current concerns about the innovative expansion of the Ukrainian economy. From a scientific perspective, a variety of economic theories are analyzed, including neoclassical, monetarist, Keynesian, institutional, and the concept of financial mediation. One advantage of studying economic theory's worldwide application is being able to ascertain how it connects to banking operations. This does not, however, cover the task of performing a comprehensive historical examination of all economic concepts related to the impact on the economic growth of the financial market and its subjects. The author stressed the importance of investigating the connection between development, the participation of banking sector participants, and trends in the formation of new paradigms in the theory of financial intermediation. Analyzing the theoretical basis for determining how banks should support the creative expansion of the economy is the aim of this paper.

Prokopenko, et. al. (2019) aimed to consider the essential components of creating a banking strategy within the innovation system. The strategic development of innovation systems, the institutional and evolutionary approach, and the selection of innovation development methods are examples of contemporary research methodologies that are used in the creation of the bank's innovation strategy. Based on an analysis of the main issues facing innovation banks, we recommend considering the innovation investment cycle approach. The bank's innovation strategy's essential components were considered. When developing the portfolio banks for intellectual property and innovation efforts, the authors have recommended considering the distinctive features of innovation marketing. Agreements and cooperation between the bank and the innovation infrastructure element will be established to facilitate the growth of specialized institutions. These will set up systems for exchanging information, keeping in touch with those that supply and support the execution of innovation projects, and communicating consistently.

Wei, et. al. (2021) investigated the effects of entrepreneurship, CSR, and innovation on bank financial performance in China, the US, France, Qatar, and Pakistan. The impact of these factors on employee innovation was investigated in this study. The websites of 25 foreign banks, including both conventional and Islamic banks, provided secondary data. For the dependent and independent variables, we used ordinary least square regression analysis, correlation coefficient testing for interactions, and descriptive statistical analysis. As independent factors, this study looked at innovation, CSR, and entrepreneurship. Board size, frequency of meetings, and self-employment with large investors were all aspects of entrepreneurship. The dependent variable, however, was the financial success of the bank. ROE and ROA were included in economic performance. This analysis discovered a strong correlation between every variable. The results clarify the long-contested connection between CSR and entrepreneurship.

Ndikubwimana, P. (2016) analyzed real data on the innovative contributions of SMEs, examining the challenges faced by SMEs, how SMEs and financial institutions foster innovation, and how SMEs contribute to economic growth. The Rwandan government has created an empowering environment to support SMEs in addition to drawing in businesses with extensive local, regional, and international experience in utilizing innovation and technology to improve business operations and spur economic growth. The majority of SMEs struggle to increase productivity, long-term competitive advantage, organizational effectiveness, and a fair rate of return on investment. In an economy that still relies on informal and conventional corporate management methods, achieving this kind of aim is challenging. According to research, innovative technological strategies are essential for gaining a competitive advantage, but putting them into practice can be challenging because some companies lack the innovative and entrepreneurial skills needed to be successful. Because of this, many new businesses fail and close down a few days after they open. SMEs should innovate if they want to stay profitable and contribute to long-term economic growth. Lenders and borrowers—individuals, companies, or enterprises in need of funding—are connected by financial institutions.

3. RESEARCH METHODOLOGY

3.1. RESEARCH DESIGN

The research design adopted is descriptive. It seeks to understand how banks promote innovation and entrepreneurship. In particular, it considers the effect of banks on entrepreneurship development, the difficulty business owners face when seeking bank loans, and what banks consider before lending.

3.2. SAMPLE DESIGN

Entrepreneurs within Mysore who seek loan application and supporting services with banks constitute the population of the sample design. 180 entrepreneurs were used as the study's sample size. It adopted a purposive sample technique to ensure that respondents selected them who engage in entrepreneurial operations directly with banks.

3.3. METHODS OF DATA COLLECTION

Primary Data: Structured questionnaires and in-person interviews were conducted with business owners to collect data. The questionnaire had three primary aspects:

- Loan approvals and bank services.
- The challenges of entrepreneurs.
- Factors that influence the lender decisions of banks.

Secondary Data: Information about entrepreneurship and bank policies was sourced from the government publications, research journals, bank reports, and internet-based sources.

3.4. DATA ANALYSIS TECHNIQUES

The following descriptive statistical techniques were applied to analyze the quantitative data collected from the respondents:

- **Percentage Analysis:** This technique helps to understand the distribution of replies across different indicators, including loan approval rates, scheme awareness, and adoption of digital banking.
- **Mean Scores:** This will help in understanding how much the entrepreneurs agree or disagree with the problems they face while taking loans.
- **Tabulation:** Data is tabulated to enhance readability and result clarity.

4. DATA ANALYSIS

4.1. BANKS' ROLE IN ENTREPRENEURSHIP DEVELOPMENT

Table 1: Banks' Role in Entrepreneurship Development

Dimension	Indicators	Responses (n=180)	Percentage (%)
Approval of Loans	Entrepreneurs who were able to obtain loans	126	70%
Reasons for Rejecting Loans	Issues with collateral	72	40%
	A bad credit record	54	30%
Knowledge of Schemes	Business owners that are aware of starting credit programs	108	60%
Consultancy Services	Entrepreneurs who were assisted by financial advisors	72	40%

Rates of Interest	Business owners who believe that interest rates are reasonable	54	30%
Online Banking Adoption	Entrepreneurs applying for loans using digital banking	90	50%
Innovation Funding	Entrepreneurs who obtained capital for creative business concepts	36	20%
Training Initiatives	Entrepreneurs who took part in training courses offered by banks	54	30%
Assistance for Market Access	Entrepreneurs getting assistance from networks or market connections	43	24%

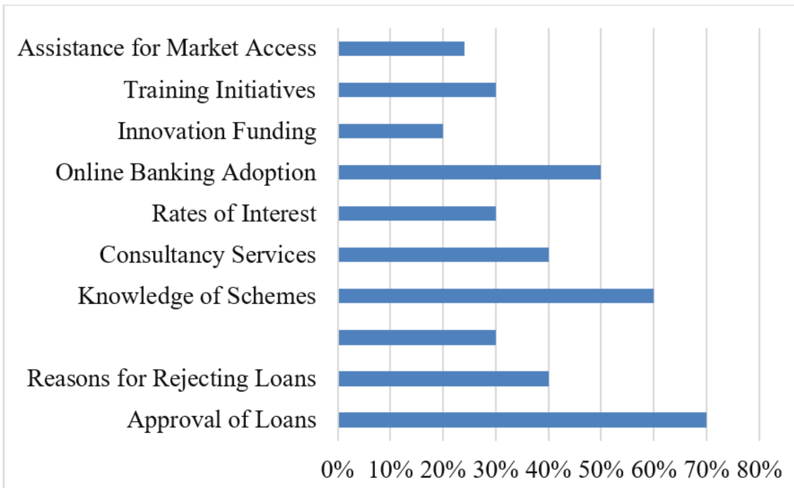

Figure 1 Banks' Role in Entrepreneurship Development

Table 1 shows an important role played by banks in financing innovations and entrepreneurship. Seventy percent of entrepreneurs who were polled managed to get loans, which means they had a high approval rate. However, 30% were affected by bad credit history, and 40% were refused due to problems with collateral. 60% of the respondents said they were aware of startup financing programs, thus having a moderate level of awareness for those programs. Forty percent indicated they used financial advising services that they lacked. Interest rate being reasonable was only thought by 30% of the respondents, which may limit the use of loans. The adoption rate of digital banking for loan application is at 50 percent, indicating a slow transition to technology-enabled banking. Only 20 percent received funds for innovative business concepts, indicating a lack of innovation funding. Also, only 30% participated in training offered by the bank, and only 24% received help in market linkage, with room, therefore for banks to improve in offering support towards the growth of entrepreneurs.

4.2. CHALLENGES/ISSUES

Table 2 Issues entrepreneurs have while trying to get bank financing

Problems	HA (Highly Agree)	A (Agree)	DA (Disagree)	HDA (Highly Disagree)	Mean Score
Absence of starting funds	136	30	---	14	3.46
Insufficient awareness of funding sources	126	34	---	20	3.44
Not being credible	133	30	---	17	3.32
Weak business strategies	108	60	---	12	3.30

A bad credit history	90	60	---	30	3.34
High Interest	126	34	---	20	3.44
Insufficient collateral	140	30	---	10	3.40

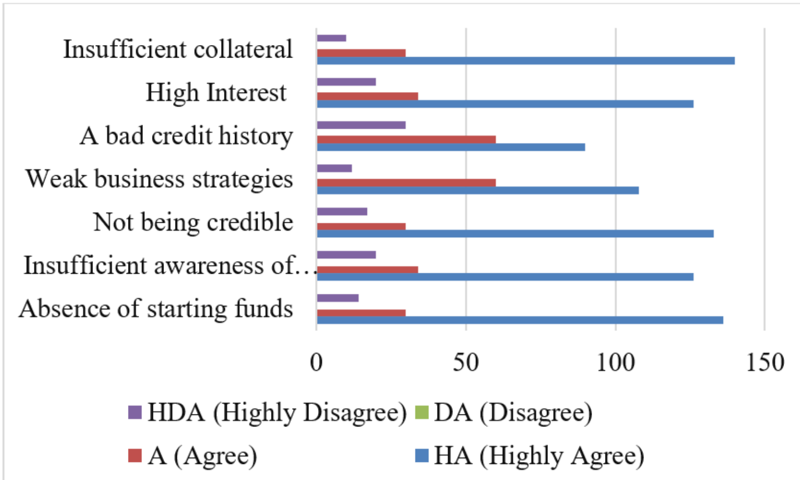

Figure 2 Issues entrepreneurs have while trying to get bank financing

Table 2 illustrates the major pain points of access to loans from the bank, as revealed by the entrepreneurs' own opinions. The dominant group is a mean score of 3.46 - strongly agreed/agreed that lack of initial capital was one of the primary obstacles, and then there was limited knowledge about available sources of finance (mean score of 3.44). Entrepreneurs also raised concerns over their credibility; the mean score is 3.32, and they appear to suffer from problems such as a weak business plan, with a mean score of 3.30, and poor credit history, with a mean score of 3.34, which mar their ability to access loans. They also feel that high interest rates (3.44), and collateral requirements (3.40), are huge barriers. These findings underscore systemic issues that inhibit entrepreneurs' access to financial resources, and indeed, the provision of better financial literacy, flexible terms on loans, and improved access to credit facilities is required by the banking sector.

4.3. FACTORS CONSIDER BY BANKS

Table 3: Factors banks evaluate before lending to entrepreneurs

Factors	Yes		No	
	(n)	(%)	(n)	(%)
Capacity	146	81%	34	18%
Capital	149	83%	31	15%
Collateral	164	91%	16	11%
Character	148	82%	32	19%
Conditions	153	85%	27	17%
Age	144	80%	36	20%

Experience	110	61%	70	38%
Loan Amount and Repayment Period	160	89%	20	11%

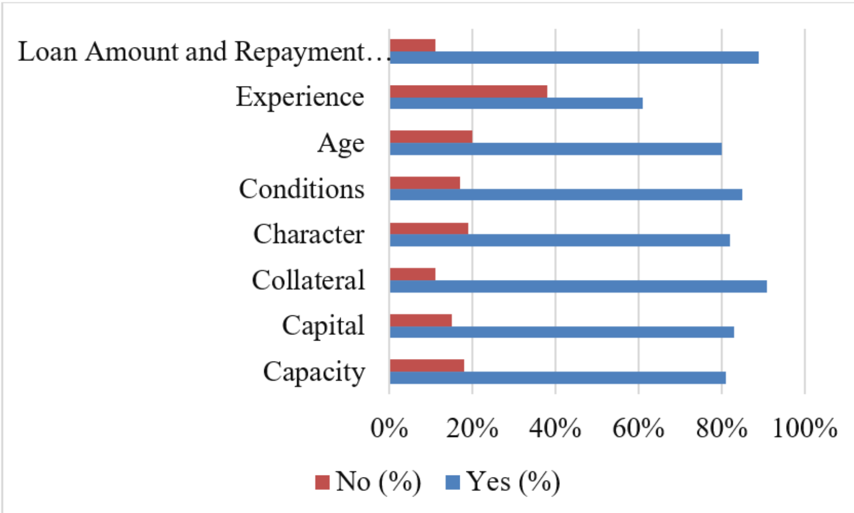

Figure 3 Factors banks evaluate before lending to entrepreneurs

The most significant criteria that banks consider when lending to business owners are underscored in table 3 below. Collateral emerges as the most important for 91% of the respondents, followed by the loan amount and repayment time at 89%. Applicant's financial ability stands at 81%, capital 83%, character 82%, and current circumstances 85%. In addition, age has a moderate impact, standing at 80% for the view that matters. However, experience is only important to 61% of respondents--a pretty low degree of emphasis. While financial and collateral-based assurances are the best predictors of lending decisions, these statistics also show that situational and human characteristics, such as age, character, and experience, are just as critical--albeit to varying degrees.

5. CONCLUSION

This study highlights the important and complex role that banks play in engendering innovation and entrepreneurship. Even with so many business people succeeding to access loans, there are still constraints such as strict collateral requirements, bad credit, high interest rates, and ignorance of several financial schemes that continue to present barriers to accessing the much-needed capital. Although personal and environmental factors, such as age and experience, are also considered, the study indicates that banks prioritize factors such as collateral, financial capacity, and character when lending decisions are made. Furthermore, funding for innovative company ideas remains low, and training programs, online banking, and financial consulting services are not yet fully tapped. Banks should focus on facilitating loans, offering more specialized financial products, making the public more aware of financial schemes, and strengthening advising and support services for promoting entrepreneurial growth. These areas can help banks play a key role in fostering an environment that is friendlier to entrepreneurs, especially those with innovative business ideas and encourages innovation as well as economic growth.

CONFLICT OF INTERESTS

None.

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