

# ROLE OF FINANCIAL INSTITUTIONS FOR THE DEVELOPMENT OF ENTREPRENEURSHIP IN HYDERABAD KARNATAKA REGION

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## **Abstract**

The State Government in its budget speech for the financial year 2016-17 has announced the setting up of a new Department for Skill Development, Entrepreneurship, and livelihood. Accordingly a new Department viz Skill Development Entrepreneurship and livelihood was created to bring Skill Development Programs of various departments of the Government of Karnataka under one Department. This Department will be under the direct control of the Chief Minister of Karnataka.<sup>1</sup>

The present paper is based on the problems being faced by an entrepreneur in Hyderabad Karnataka region; the study may help the organization to frame the new policies as well as the entrepreneurs as they were facing some of the problems before /after getting the assistance from the different financial institutions.

**Keywords:** Problems Before And After Getting Assistance From Select Financial Institutions.

## **1.1 Introduction**

Karnataka State has a very young population which provides a unique 25 years opportunity for demographic dividend by skilling its manpower to enhance their employability, productivity, and competitiveness. An integrated Ministry with high power Skill Mission Chaired by the Hon'ble Chief Minister with an overarching role of regulating, standardizing, promoting, monitoring, planning, and implementing is desirable to converge the resources, institutional strengths, and programs of various departments for skilling in the State of Karnataka. This will align state initiatives with the National Skill Development Policy for focused and sustained skilling and employability.

## 1.2: Review of literature

**Shanker and Vijaylakshmi (2007)<sup>2</sup>** examine motivating factors among women entrepreneurs in Chennai by taking a sample of 47 respondents. The motivating factors were categorized into push and pull factors. The study concludes that women entrepreneurs are motivated by pull factors.

**Murali Krishna (2009)<sup>3</sup>** analyzes the problems and prospects of women entrepreneurs in north coastal Andhra Pradesh. The study identifies a shortage of capital, unhealthy competition, transport system, information system, family problems, self-confidence, training programs, etc., as major problems faced by women entrepreneurs. The study recommends a provision of necessary support in production, financing, and marketing and improvement in the socio-cultural environment.

**Hede and Savita (1997)<sup>4</sup>** analyze the problems of self-employed women. A survey was conducted on 65 sample women entrepreneurs of Goa. Inadequate finance, the problem of infrastructure, labor, raw material, and marketing, and the problem of getting state assistance at the time of registration, documentation, etc., are the major problems faced by women entrepreneurs.

**Anju and Inderjeet (1997)<sup>5</sup>** study 40 women entrepreneurs of Haldwani and Patnagar cities of Uttar Pradesh was conducted to ascertain the motivating factors, constraints, and entrepreneurial traits of women entrepreneurs. The study reveals a lack of technical know-how, excess work responsibility, poor knowledge about various institutions and Government programs, unfavorable family attitude, and lack of confidence in their abilities as major constraints faced by women entrepreneurs.

**Charumati (1997)<sup>6</sup>** attempts a SWOT analysis of women entrepreneurs in Tamil Nadu. The study reveals that women entrepreneurs are confident of overcoming minor weaknesses and threats by utilizing their major strengths and opportunities.

## 1.3: Statement of Problem

The review of the literature clearly shows that no attempt has so far been made to analyze the Institutional support for entrepreneurship development in a different part of India as well as in Karnataka in general. The study conducted by the researchers was based on the problems being faced by an entrepreneur before/after getting financial assistance from select financial institutions of the Hyderabad Karnataka region.

Hence, the present study proposes to fill the gap in existing literature the study titled “Role of financial institutions for the development of entrepreneurs in Hyderabad Karnataka region” was undertaken.

## 1.4: Objectives of the Study

- a) To study the types of problems being faced by entrepreneurs before getting assistance from financial institutions.

- b) To know the facts and problems being faced by entrepreneurs after getting assistance from financial institutions.
- c) To offer suggestions for improving the Financial Institutions to Support the Entrepreneurs of Hyderabad Karnataka Region.

### 1.5: Scope of the Study

The study was focused on the problems faced by the entrepreneurs of Hyderabad Karnataka region, The study may help to know the various problems faced by the entrepreneurs while running their business by analysis and interpretation of the data provided by the respondent entrepreneurs and their suggestions were taken positively for improving certain policies and provide timely necessary services by the select organization to their customers.

### 1.6: Hypothesis for the Study

- a) **H<sub>0</sub>**: There is not a significant relationship between Monthly income, Before availing the Venture Finance with Monthly income, After availing the Venture Finance
- b) **H<sub>0</sub>**: There is not a significant relationship between Reasons for switching over from the existing business to the new business and with Risk factors involved while establishing a new venture

### 1.7: Research Design

The following methodology was adopted to carry out the research study

#### 1.7.2: Source of Data

The present study includes both primary and secondary sources of information.

- a) **Primary data**: the primary data was collected from the sample respondents who obtained loans from different financial institutions for their business through questionnaires and by interviewing the officials of these institutions.
- b) **Secondary data**: the secondary data were collected from official websites of the select financial institutions of the HK Region, a database published by the government, books, journals, a thesis, etc.

#### 1.7.3: Area of the study, Sampling and Sample Size

The study was focused on six districts of Hyderabad Karnataka region and the survey was conducted to the sample respondents who availed financial assistance from the select financial institutions through random sampling method the sample size for the study was 400 respondents across the HK region of Karnataka state.

**Table 1.1: Total Number of Entrepreneurs Availed of Financial Assistance**

S. No.	Name of the District	Total Number of Entrepreneurs Availed of Financial Assistance	Number of Respondents
1	Gulbarga	325	90
2	Yadgir	112	30

3	Raichur	187	40
4	Bidar	502	100
5	Koppal	280	60
6	Bellary	302	80
<b>Total Sample Respondents</b>		<b>1708</b>	<b>400</b>

### 1.8: Limitation of the Study

The following study has some of the limitations listed below

- The study is confined to the Hyderabad Karnataka region of Karnataka state and the data may not hold well for any other regions or sectors.
- The study was focused on the major problems faced by entrepreneurs who availed financial assistance from select institutions.
- Time and cost were the major limitations of the study
- The study was limited to only 400 respondents who availed of financial assistance from select institutions.

### 1.9: Hypothesis Testing and Summary of its Results

#### 1.9.1: Hypothesis 01

**H<sub>0</sub>:** There is not a significant relationship between Monthly income, Before availing the Venture Finance with Monthly income, After availing the Venture Finance

**H<sub>1</sub>:** There is a significant relationship between Monthly income, Before availing Venture Finance with Monthly income, After availing the Venture Finance

**Table 1.2: Monthly income, before availing the Venture Finance**

Monthly income	No. of Respondents	Frequency in Percentage
Less than 10000	164	41
10001 to 20000	104	26
20001 to 50000	84	21
Above 50001	48	12
<b>Total</b>	<b>400</b>	<b>100</b>

**Source:** Field Survey

Details of the monthly income of the respondents before availing venture finances from the banks are given in the above table. 41 percent of the respondents said that they have on an average monthly income of less than Rs. 10000 per month before availing venture finance, 26

percent of the respondents opined that they had a monthly income of around Rs. 10001 to Rs. 20000 per month, 11 percent of the respondents opined that they had around Rs. 20001 to Rs. 50000 per month income and 12 percent of the respondents said they had on an average of above Rs. 50001 per month of income before availing venture finances from the banks.

**Table 1.3: Monthly income, after availing the Venture Finance**

Monthly Income	No. of Respondents	Frequency in Percentage
Less than 10000	136	34
10001 to 20000	120	30
20001 to 50000	92	23
Above 50001	52	13
<b>Total</b>	<b>400</b>	<b>100</b>

**Source:** Field Survey

Details of the monthly income of the respondents after availing venture finances from the banks are given in the above table. 34 percent of the respondents said they have an income of less than Rs. 10000 per month after availing venture finance, 30 percent of the respondents opined that they have an average income between Rs. 10001 to Rs. 20000, 23 percent of the respondents said they have an income of around Rs. 20001 to Rs. 50000, and 13 percent of respondents said they have an income of above Rs. 50001 per month after getting venture finance from the banks. It can be further analyzed that the respondent's monthly income has increased after taking venture finance from the banks.

### Correlations

**Table1.4: Monthly income, before availing the Venture Finance with Monthly income, after availing the Venture Finance Cross tabulation**

Cross Tabulation		Monthly income, After availing of the Venture Finance				Total
		Less than 10000	10001 to 20000	20001 to 50000	Above 50001	
Monthly income, Before availing the Venture Finance	Less than 10000	136	28	0	0	<b>164</b>
	10001 to 20000	0	92	12	0	<b>104</b>
	20001 to 50000	0	0	80	4	<b>84</b>
	Above 50001	0	0	0	48	<b>48</b>
<b>Total</b>		<b>136</b>	<b>120</b>	<b>92</b>	<b>52</b>	<b>400</b>

**Table 1.18: Symmetric Measures**

Symmetric Measures		Value	Asymp. Error <sup>a</sup>	Std.	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Interval	Pearson's R	.955	.006		64.155	.000 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	.945	.008		57.466	.000 <sup>c</sup>
N of Valid Cases		400				

**Table 1.5: Correlations**

Correlations		Monthly income, Before availing the Venture Finance	Monthly income, After availing of the Venture Finance
Monthly income, Before availing the Venture Finance	Pearson Correlation	1	.955**
	Sig. (2-tailed)		.000
	N	400	400
Monthly income, After availing of the Venture Finance	Pearson Correlation	.955**	1
	Sig. (2-tailed)	.000	
	N	400	400
**. Correlation is significant at the 0.01 level (2-tailed).			

Correlation is significant at the 0.01 level (2-tailed), Hence There is a significant relationship between Monthly income, Before availing Venture Finance with Monthly income, and After availing Venture Finance so the null hypothesis is rejected and the alternative hypothesis is accepted.

### 1.9.2: Hypothesis 02:

**H<sub>0</sub>**: There is not a significant relationship between Reasons for switching over from the existing business to the new business and with Risk factors involved while establishing a new venture

**H<sub>1</sub>**: There is a significant relationship between Reasons for switching over from the existing business to the new business and with Risk factors involved while establishing a new venture

**Table 1.6: Reasons for switching over from the existing business to the new business**

Reasons	No. of Respondents	Frequency in Percentage
In Old Business	308	77
Lack of raw material	7	02
Lack of market	17	04
Non-availability of skilled labor	15	04
The emergence of new companies	8	02
Change in customer preferences and testes	45	11
<b>Total</b>	<b>400</b>	<b>100</b>

Source: Field Survey

Reasons for switching over from the existing business to the new business are given in the above table. 08 percent of the respondents said lack of raw materials for the first business made them start a new business, 18 percent of the respondents said that lack of market for the old products and services is the reason for starting the new business, 16 percent of the respondents said non-availability of skilled labor, 09 percent of the respondents said the reason is the emergence of new companies/competitors in the existing business, 49 percent of the respondents which is a majority stated that the reason for the business change is because the change in customer preferences and testes. The research shows that the reason for the change in an existing business is due to a change in customer preferences and tests.

**Table 1.7: Risk factors involved while establishing a new venture**

Risk factors	No. of Respondents	Frequency in Percentage
Financial losses	192	48
Unavailability of skilled labor	20	05
Lower market demand for the product /services	48	12
Lack of marketing capabilities	80	20
Too many government rules and regulations	36	09
Competition	24	06
<b>Total</b>	<b>400</b>	<b>100</b>

Source: Field Survey

The above table shows details of the risk factors involved while establishing a new venture. 48 percent of the respondents which is a majority opined that financial losses are the

major risk factors for any new business, 05 percent of the respondents said lack of availability of skilled labor is the major risk factor for new ventures, 12 percent of the respondents said that lower market demand for the product/services is the risk factor in starting the new businesses, 20 percent of the respondents said that lack of marketing capabilities of entrepreneurs and new businesses is the risk factor, 09 percent of the respondents said there are too many government rules and regulations for startup businesses which causes the new business to fail, and 06 percent of the respondents opined that competition is the risk factor for the new businesses to fail. The research study found that the main risk factors of new business ventures are financial losses and the lack of marketing capabilities of the entrepreneurs.

**Table1.8: Reasons for switching over from the existing business to a new business with Risk factors involved while establishing a new venture**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1052.134	5	210.427	710.177	.000
Within Groups	116.743	394	.296		
<b>Total</b>	<b>1168.878</b>	<b>399</b>			

A small **p-value** (typically  $\leq 0.05$ ) indicates strong evidence against the null hypothesis, so you reject the null hypothesis. A large **p-value** ( $> 0.05$ ) indicates weak evidence against the null hypothesis, so you fail to reject the null hypothesis.

The P Value for the present test is 0.000 which is less than 0.05 Hence it indicates strong evidence against the null hypothesis so the null hypothesis is rejected and the alternative hypothesis is accepted.

### 1.10: Suggestions:

- a) The process followed in sanctioning the loan and the documentation required is cumbersome; hence it is suggested to make the process easier by reducing the paperwork that is the entrepreneurship should be allowed for online submission through user-friendly software.
- b) There will be a delay in cash after selling products due to the credit period provided to customers. But entrepreneurs will have to make payments upfront to service providers. Banks should help in providing working capital assistance that becomes the lifeline of companies. Apart from that, banks should provide financial help regularly like during expansion, or play the role of middleman to connect entrepreneurs. Banks can connect people with huge pockets to people with great ideas. Banks are great advisers as well, they can suggest young entrepreneurs invest their money in shares or commodities to earn more and without any interest rate.
- c) The growth of digital banking has reduced the cost of starting/doing business tremendously. This has greatly helped entrepreneurs in modern days. It is also very



helpful for those involved with businesses on foreign soil. Therefore financial institutions should adopt modern methods of banking.

- d) Entrepreneurs are not happy with the functioning of financial and other supporting institutions. The study reveals that most of the SSIs are not happy because most of the entrepreneurs feel that the interest rates charged for the loans borrowed are very high, there is a lot of Red-tapism and the repayment period is short duration and also the demand for the requirement of funds is not met as per the expectations of the entrepreneurs and the margin money is very high. Therefore, financial institutions have to be much more transparent in their functioning to curb corruption; within the institution, the internal check and internal control should be very vigilant. The service fee should be reduced so that the entrepreneurs will not feel the pinch of a slightly higher rate of interest. The percentage of margin money should be quite reasonable. So that the declining trend of entrepreneurs seeking financial assistance through such institutions can show a growth curve.
- e) Entrepreneurs need to know how much time and capital they are going to be investing in their new business. In addition, market research should be done. This gives them an idea of whether or not their new business has a chance at success or ends in failure landing them in the poorhouse.

### **1.11: Conclusion:**

The study entitled “The Role of Financial Institutions in Developing Entrepreneurs in HK Region” Was undertaken to evaluate the role played by financial institutions in the promotion of entrepreneurial development in the Hyderabad – Karnataka region of Karnataka state. specifically during the period 2015-19. The reason for taking up this study was to know whether financial institutions are contributing substantially to the growth and development of entrepreneurs.

The financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. Financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial products and services to fulfill the varied needs of the commercial sector. Besides, they assist new enterprises, small and medium firms as well as the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development.

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