

A Study on the Role of Institutional Financing in the Start-Up & Growth of Small-Scale Businesses in Vijayapur City

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Abstract- This study examines the financial management practices of small businesses in Vijayapura City, Karnataka, India. It focuses on the primary sources of finance used by these enterprises and the challenges they encounter in accessing institutional credit. The findings reveal that most small businesses depend largely on personal savings and financial support from family and friends, as bank loan procedures are often complex, time-consuming, and difficult to navigate. To enhance access to finance, the study recommends simplifying loan application procedures, ensuring consistency in lending policies, and incorporating relational factors into credit evaluation processes. It also highlights the importance of leveraging technology—such as online banking and mobile financial services—to improve financial accessibility, particularly in rural areas. Furthermore, the paper emphasizes the need to align loan eligibility criteria with the income patterns and operational realities of small businesses. It calls for collaborative efforts between government authorities and financial institutions to design and implement supportive policies that facilitate easier access to capital. Strengthening financial access can significantly contribute to small business growth, local economic development, and community resilience. Finally, the study suggests that future research should evaluate the effectiveness of these recommendations and their broader impact on small business financing and economic performance.

Key Words- Institutional Finance, Small-Scale Businesses, Access to Credit, Business Start-up, Business Growth, Informal Finance Sources, Credit Accessibility.

I.INTRODUCTION

Small-scale businesses in India, commonly referred to as Small-Scale Enterprises (SSEs), play a crucial

role in the country's economic development. They contribute significantly to Gross Domestic Product (GDP), employment generation, regional development, and export growth. With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the focus shifted from Small-Scale Industries (SSIs) to Micro, Small, and Medium Enterprises (MSMEs), reflecting a broader and more inclusive approach. This transition has been supported by economic liberalization and financial sector reforms, which have expanded growth opportunities for these enterprises. Small-scale businesses differ in size and operational capacity. Microenterprises represent the smallest category and are often managed by individuals or families, such as roadside vendors and home-based businesses. Tiny enterprises typically employ a small number of workers, including local grocery stores and small workshops. Small enterprises operate on a relatively larger scale, generating higher revenue and employment, such as neighbourhood restaurants and service providers. Medium-scale enterprises function at an even broader level, often operating across multiple locations with greater capital investment and workforce strength. These enterprises efficiently utilize local resources, capital, and skills, particularly in rural and semi-urban areas. They play a vital role in generating employment opportunities, reducing regional disparities, and promoting equitable income distribution. In addition, small-scale businesses foster innovation, entrepreneurship, and local economic development while providing essential goods and services to communities. By encouraging self-employment and supporting family-based economic activities, small businesses

contribute to inclusive growth and improved living standards. They coexist with large industries and often serve as feeder units, gradually evolving into larger enterprises over time. Especially in agriculture-driven rural economies, small-scale businesses enhance productivity, raise income levels, and strengthen economic resilience. Overall, small-scale enterprises are indispensable to India's economic structure, supporting industrial democracy, balanced development, and long-term economic stability alongside large industries.

II. RESEARCH METHODOLOGY

Data Collection

The present research was carried out in Vijayapura City, located in the northern region of Karnataka. A quantitative research design was adopted for both data gathering and subsequent analysis.

Sources of Data

The study utilized information from both primary and secondary sources.

Primary Data

Primary information was obtained through a field survey. A structured questionnaire was prepared and administered to respondents across various locations within Vijayapura City.

Secondary Data

Secondary information was gathered from credible sources such as websites, academic journals, research papers, reports, and other recognized databases.

Sampling Method

The samples for the study were selected using the simple random sampling technique to ensure unbiased representation.

Sample Size

The total number of respondents considered for the study was 50.

Tools Used for Data Analysis

To examine the hypotheses, the study employed the following statistical tools:

- Descriptive Statistics: Percentages, tables, and graphical tools were used to summarize and interpret the collected data.

- T-Test: Statistical testing was carried out using IBM SPSS to analyze the responses and draw valid conclusions.

III. OBJECTIVES OF THE STUDY

The study is guided by the following key objectives:

1. To examine the extent of utilization of institutional finance by small-scale businesses.
2. To evaluate the role of institutional finance in businesses start-up.
3. To assess the contribution of institutional finance in business growth.

HYPOTHESES

H₀: "Institutional finance does not play a significant role in the startup of Small Scale Businesses in Vijayapur City."

H₁: "Institutional finance plays a significant role in the startup of Small Scale Businesses in Vijayapur City."

H₀: "Institutional finance does not play a significant role in the growth of Small Scale Businesses in Vijayapur City."

H₂: "Institutional finance plays a significant role in the growth of Small Scale Businesses in Vijayapur City."

IV. DISCUSSION AND RESULTS OF THE HYPOTHESIS

Analysis of Hypothesis-1

H₀: "Institutional finance does not play a significant role in the startup of Small Scale Businesses in Vijayapur City."

H₁: "Institutional finance plays a significant role in the startup of Small Scale Businesses in Vijayapur City."

To test the above null hypothesis, a One-Sample t-test was applied using IBM SPSS, taking the test value as 3 (neutral point on the Likert scale).

Analysis: The results presented in Table 4.12 and Table 4.13 indicate that all selected variables related to institutional finance—such as the role of financial

institutions in business establishment, documentation difficulties, complicated lending procedures, high transaction costs, lack of flexible repayment terms, competitive interest rates, and collateral requirements—show statistically significant results.

For all variables, the calculated t-values are negative and significant, and the Sig. (2-tailed) values are 0.000, which are less than the 5% level of significance ($p < 0.05$). The mean values of all factors are significantly lower than the test value of 3, indicating strong agreement among respondents regarding the influence of institutional finance on business establishment.

Showing the T-test of startup of Small Scale Businesses

One-Sample Statistics

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|----|------|----------------|-----------------|
| "Role of financial institutions in business establishment." | 50 | 1.52 | .646 | .091 |
| Documentation difficulties | 50 | 1.12 | .385 | .055 |
| Complicated lending & strict procedure | 50 | 1.52 | .646 | .091 |
| High transaction cost | 50 | 1.54 | .706 | .100 |
| No flexible repayment terms | 50 | 1.84 | .681 | .096 |
| Competitive interest rates | 50 | 1.84 | .681 | .096 |
| Submitting collateral securities | 50 | 1.80 | .782 | .111 |

One-Sample Test

| | Test Value = 3 | | | | | |
|---|----------------|----|-----------------|-----------------|---|-------|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| "Role of financial institutions in business establishment." | -16.188 | 49 | .000 | -1.480 | -1.66 | -1.30 |
| Documentation difficulties | -34.489 | 49 | .000 | -1.880 | -1.99 | -1.77 |
| Complicated lending & strict procedure | -16.188 | 49 | .000 | -1.480 | -1.66 | -1.30 |
| High transaction cost | -14.624 | 49 | .000 | -1.460 | -1.66 | -1.26 |
| No flexible repayment terms | -12.046 | 49 | .000 | -1.160 | -1.35 | -.97 |
| Competitive interest rates | -12.046 | 49 | .000 | -1.160 | -1.35 | -.97 |
| Submitting collateral securities | -10.844 | 49 | .000 | -1.200 | -1.42 | -.98 |

Interpretation: The findings clearly demonstrate that institutional finance has a significant influence on the startup of Small Scale Businesses in Vijayapur City. Entrepreneurs' responses indicate that factors related to institutional financing play a crucial role in shaping startup decisions.

Since the significance values for all variables are less than 0.05, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted.

Conclusion: Therefore, it can be concluded that institutional finance plays a significant role in the startup of Small Scale Businesses in Vijayapur City. This conclusion is supported by the one-sample t-test results obtained from the study.

Analysis of Hypothesis-2

H₀: “Institutional finance does not play a significant role in the growth of Small Scale Businesses in Vijayapur City.”

H₂: “Institutional finance plays a significant role in the growth of Small Scale Businesses in Vijayapur City”

To test the above null hypothesis, the researcher has applied a One-Sample t-test using IBM SPSS, by fixing the test value at 3, which represents the neutral level of opinion.

Analysis: The results presented in Table 4.14 and Table 4.15 reveal that the mean scores of all variables related to institutional finance—such as

the role of financial institutions in business growth, simple lending procedure, flexible rules, low transaction cost, flexible repayment terms, low interest rates, and subsidized credit—are significantly different from the test value.

The calculated t-values for all factors are negative, and the Sig. (2-tailed) values are 0.000, which are less than the 0.05 level of significance. This clearly indicates that the differences observed are statistically significant. Further, the mean values of all variables are lower than the test value of 3, indicating strong agreement among respondents regarding the importance of institutional finance in business growth.

Showing the T-test of growth of Small Scale Businesses

One-Sample Statistics

| | N | Mean | Std. Deviation | Std. Error Mean |
|--|----|------|----------------|-----------------|
| “Role of financial institutions in business growth.” | 50 | 1.96 | .807 | .114 |
| Simple lending procedure | 50 | 1.50 | .678 | .096 |
| Flexible rules | 50 | 1.68 | .713 | .101 |
| Low transaction cost | 50 | 1.92 | .778 | .110 |
| Flexible repayment terms | 50 | 1.84 | .650 | .092 |
| Low interest rates | 50 | 2.12 | .773 | .109 |
| Subsidized credit | 50 | 1.90 | .707 | .100 |

One-Sample Test

| | Test Value = 3 | | | | | |
|--|----------------|----|-----------------|-----------------|---|-------|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| “Role of financial institutions in business growth.” | -9.111 | 49 | .000 | -1.040 | -1.27 | -.81 |
| Simple lending procedure | -15.652 | 49 | .000 | -1.500 | -1.69 | -1.31 |
| Flexible rules | -13.099 | 49 | .000 | -1.320 | -1.52 | -1.12 |
| Low transaction cost | -9.812 | 49 | .000 | -1.080 | -1.30 | -.86 |
| Flexible repayment terms | -12.614 | 49 | .000 | -1.160 | -1.34 | -.98 |
| Low interest rates | -8.050 | 49 | .000 | -.880 | -1.10 | -.66 |
| Subsidized credit | -11.000 | 49 | .000 | -1.100 | -1.30 | -.90 |

Interpretation: The results clearly indicate that institutional finance plays a significant role in the growth of Small Scale Businesses in Vijayapur City. Entrepreneurs strongly perceive that factors such as simplified lending procedures, flexible rules,

affordable transaction costs, reasonable interest rates, and subsidized credit facilities positively influence business growth.

Since the p-values for all variables are less than 0.05, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_2) is accepted.

Conclusion: Therefore, it can be conclusively stated that institutional finance significantly contributes to the growth of Small Scale Businesses in Vijayapur City. This conclusion is firmly supported by the one-sample t-test results obtained from the study.

V.FINDINGS

- Small businesses in rural areas, particularly those operated by individuals from lower-income groups, often face difficulties in obtaining attention and financial support from formal banking institutions. In contrast, informal lenders are more accessible and willing to extend credit to such businesses.
- Formal banks frequently lack a comprehensive understanding of the operational challenges faced by small-scale enterprises. Informal lenders, being closer to the local community, tend to have a better understanding of borrowers' circumstances and business realities.
- Banking institutions generally follow strict lending policies and fixed eligibility criteria. Informal lenders, however, demonstrate greater flexibility, particularly during periods of financial hardship faced by small businesses.
- The loan application procedures of banks are often complex and difficult for small business owners to navigate. In comparison, informal lenders maintain simpler and more borrower-friendly processes.
- Bank loan applications typically require extensive documentation and literacy skills, creating barriers for many rural entrepreneurs. Informal lending processes usually involve minimal paperwork and fewer formal requirements.
- Banks commonly demand substantial collateral in the form of valuable assets before approving loans. Informal lenders may either require little or no collateral, or rely more on personal trust and the borrower's repayment capacity.
- The time taken by banks to process and disburse loans is often lengthy due to multiple verification stages. Informal lenders, on the other hand, provide quicker decisions and faster access to funds.
- Repayment terms in formal banking systems are usually rigid and structured. Informal lenders offer more flexible repayment arrangements,

adjusting terms according to the borrower's financial situation.

VI.SUGGESTIONS

Faster Loan Processing: Loan applications from small and medium enterprises should be cleared within a fixed time limit. A single-window system can reduce delays, cost, and complexity.

Uniform Lending Policies: Financial institutions should follow standardized lending norms across the country instead of region-specific rules.

Relationship-Based Lending: Banks should adopt a relationship-oriented approach by understanding borrowers' business conditions rather than relying only on rigid rules.

Use of Technology in Financing: Technology should be used to improve credit access for small businesses through:

- **Information Systems:** For tracking transactions and preparing financial records.
- **Credit Scoring:** To assess repayment capacity using data analysis.
- **Internet Banking:** To enable remote banking through online platforms.
- **Mobile Banking:** To provide virtual banking services, especially in rural areas.

Partnership-Based Outreach: Financial institutions can deliver services directly or through local agents and merchants to expand their reach.

Cash Flow-Based Lending: Loan decisions should focus more on business cash flows instead of only asset ownership.

Priority to Working Capital: Greater importance should be given to working capital finance rather than financing fixed assets alone.

VII.CONCLUSION

The study on small businesses in Vijayapur City provides important insights into their financing patterns and the challenges they face in accessing institutional credit. The findings indicate that most small businesses primarily rely on personal savings and financial assistance from family and friends to meet their funding needs. Accessing bank loans remains difficult due to complex procedures, lengthy processing times, strict eligibility criteria, and demanding documentation requirements. The study

highlights the need to simplify loan application processes and ensure uniform and transparent lending policies across financial institutions. Incorporating relationship-based assessment methods, particularly in rural areas, may further improve credit accessibility. Additionally, the adoption of technological solutions such as online banking and mobile financial services can significantly enhance financial inclusion and reduce procedural barriers. Aligning loan approval criteria with the actual income patterns and operational realities of small businesses is essential for effective financial support. Greater collaboration between government bodies and banking institutions can facilitate policy reforms aimed at improving access to capital. Strengthening financial accessibility will enable small businesses to expand, generate employment, and contribute more effectively to local and regional economic development. Future research should evaluate the practical impact of these recommendations and examine their long-term effects on small business financing and economic growth.

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