

## **CHANGING ROLE OF BANKS IN ENTREPRENEURSHIP DEVELOPMENT IN INDIA**

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### **ABSTRACT**

Banks are expected to provide entrepreneurs with financial assistance as well as inputs to support and promote their enterprise. The banks have been found to be lacking on both counts and the concept of integrated approach to entrepreneurship development is totally absent. While the infrastructure and supportive inputs like knowledge and training are conspicuous by their absence, the financial assistance made available by the banks is not entirely to the satisfaction of entrepreneurs. One of the major causes that may be identified for huge Non-Performing Assets (NPAs) is the negligence on the part of banks in realizing their role in the proper development of entrepreneurs. Hence, it is imperative in the present scenario that banks reorganize themselves and develop the necessary infrastructure for providing training and imparting the requisite knowledge to entrepreneurs for running their business successfully. Entrepreneurship development is the need of the hour and the banks should actively involve themselves in this task. The results of these efforts would be improved quality of assets and increased business for the banks. In broader terms, the development of entrepreneurs would result in a flourishing business which would not only be profitable but also self-sustaining and making positive contribution to national economy.

### **INTRODUCTION**

The banking sector environment in India has been undergoing a phenomenal change since 1991. Such systematic changes form major planks of the on-going economic reforms in India. The transformation process got triggered primarily with the prescribing of prudential norms for asset classification, capital adequacy, provisioning, income recognition, deregulation, competition, technology upgradation and entry of new players. These measures were adopted on the basis of the recommendations of Narsimham Committee whose Panel II has again reviewed the banking sector reforms which have taken place. The Panel has also submitted its second report on April 23, 1998. Its main suggestions include the merger of strong banks, the freeing of bank boards from day-to-day operations, giving of global character to some large banks, narrow banking to rehabilitate weak banks, confining small and local banks to states or clusters of districts, the refreshing of capital adequacy prescription, the reviewing of

functions of boards and management and the updating of RBI Act, Banking Regulation Act and SBI Act.

The earlier focus of banking industry on deposit mobilization and social banking has given way to a paradigmatic shift towards customer oriented and commercially driven banking with higher level of profitability and productivity. In order to achieve the above objectives, the most important controllable variable is improving the quality of assets. It has been, however, observed that in order to survive in the increasingly cut-throat competition, as also to combat disintermediation process, the banks extended their full support to small enterprises. Business enterprises became profitable and lucrative on account of easy and soft credit made available by the banks. As business flourished, bank credit burgeoned and it became inevitable that the quality of advances took a back seat. In the changing environment with tighter norms, the banks are faced with a critical situation of having to deal with huge Non-Performing Assets (NPAs) on their balance-sheets. If such advances are properly managed and further increase is prevented, they may act as profit centers for the banks by way of reversal of excess provisioning made.

In early 1960s the need for entrepreneurial development as an ingredient of economic development was realized. It was considered essential to motivate and assist prospective and potential entrepreneurs to set up their own ventures to contribute in production, employment and tapping of unutilized resources. Studies have revealed that, although industrial backwardness is due to infrastructural bottle necks, the real cause is non-availability of dynamic and skilled entrepreneurs who could mobilize and productively utilize the available resources. The task of entrepreneurship development is being shared by several agencies and institutions among which banks are the most important ones. The banks have their wide-spread branch network to reach out to all categories of customers. In developing economies like India, an entrepreneur requires financial input as well as non-financial inputs like scientific and technical knowledge.

## **OBJECTIVES OF THE STUDY**

This study aims at reviewing the present role of banks in entrepreneurship development and to redefine it under the changing environment mentioned in the backdrop.

## **SCOPE OF THE STUDY**

The study relates to 11 branches of Allahabad Bank situated in Varanasi district comprising of 1 rural, 2 semi-urban and 8 urban branches.

The study covers 134 borrowers representing 13.6% of the entire population. The sample consisted of 23.9% borrowers having bank limit upto Rs. 2.00 lacs, 25.4% above Rs. 2.00 lacs but upto Rs. 15 lacs, 43.3% above Rs. 15 lacs but upto Rs. 100 lacs and 7.4% above Rs. 100 lacs. The sample has also been categorized on the basis of the nature of activity -- 59.7% respondents belonging to carpet industry whereas the remaining 40.3% belonging to other industries. Out of the surveyed entrepreneurs 26% were located in urban area, 31% were in semi-urban and 43% in rural area.

The study also covered 20 bank officials consisting of 11 branch managers and 9 other bank officials.

## **METHODOLOGY OF THE STUDY**

The study is mainly based on the primary data collected from bank records, guidelines of RBI and Allahabad Bank and the information derived from the response to the questionnaires while interviewing the respondents.

## **FINDINGS OF THE STUDY**

### **1. Creating Awareness of Loans/Advances Schemes of the Bank**

So as to ensure that financial assistance is rendered to the potential borrowers, it is necessary for a bank to develop adequate level of awareness about the various types of schemes and facilities and their utility among the people. Such awareness can be developed in various ways such as educating borrowers / potential borrowers through formal and informal interactions. The bank branches are required to hold customer meetings once a month to generate awareness and interaction. In addition, the branch personnel are expected to move in field to contact existing and potential borrowers to know their requirements and expectations from the Bank to enable the banker to tailor the schemes to suit the requirements of the customers within the overall framework and guidelines of the Bank.

The Bank officers confessed that most of the entrepreneurs came to them on their own and they could not motivate them due to heavy pressure of routine work and lack of any thrust given by the top management to do so. However, during various meetings with the customers, they tried to acquaint them with different lending schemes in operation by the Bank. Table 1 reveals that only half of the borrowers were found to have been fully aware of the various credit facilities of the Bank prior to approaching it for an advance.

**Table 1: Level of awareness regarding Bank facilities and schemes**

Responses								
Cate-gory	Fully aware		Partly aware		Not aware		Grand Total	
	Sub-Total		Sub-Total		Sub-Total		Total	
A1	-	-	-	-	-	-	-	-
A2	14	14	6	6	12	12	32	32
B1	8	-	4	-	6	-	18	-
B2	4	12	6	10	6	12	16	34
C1	32	-	14	-	6	-	52	-
C2	2	34	4	18	-	6	6	58
D1	8	-	2	-	-	-	10	-
D2	-	8	-	2	-	-	-	10
T1	48	-	20	-	12	-	80	-
	60%	-	25%	-	15%	-	-	-
T2	20	68	16	36	18	30	54	134
	37%	51%	30%	27%	33%	22%	-	-

\* Category code : A-Rs. 0-2 lacs, B-Rs.2-15 lacs, C-Rs. 15-100 lacs, D-Over Rs. 100 lacs, T-Total; 1-Carpet Industry, 2-Other Industries  
The same connotations may be read in other tables also.

It is also evident from the table that more than one-fourth of the borrowers were partly aware and the rest were not at all aware of the Bank schemes. It is interesting to note that the level of awareness was found to be higher among borrowers availing of credit facilities above Rs. 15 lacs. The borrowers belonging to carpet industry were found to have better awareness.

**Table 2 : Source of information regarding Bank facilities and schemes**

Responses										
Cate-gory	Banker		Profess-ionals		Govern-ment agencies		Others		Grand Total	
	Sub-Total		Sub-Total		Sub-Total		Sub-Total		Total	
A1	-	-	-	-	-	-	-	-	-	-
A2	10	10	-	-	2	2	8	8	20	20
B1	4	-	4	-	2	-	2	-	12	-
B2	2	6	6	10	1	3	1	3	10	32
C1	14	-	22	-	-	-	10	-	46	-
C2	2	16	2	24	-	-	2	12	6	52
D1	4	-	4	-	-	-	2	-	10	-
D2	-	4	-	4	-	-	-	2	-	10
T1	22	-	30	-	2	-	14	-	68	-
	32%	-	44%	-	3%	-	21%	-	-	-
T2	14	36	8	38	3	5	11	25	36	104
	39%	35%	22%	36%	8%	5%	31%	24%	-	-

It was further noted that those who were aware of the various schemes had acquired the information from personal contact with other customers, borrowers, professionals, friends and their Bankers. The spread of the sources of information is depicted in Table 2. The Table shows that only about one-third of the borrowers came to know about Bank credit policies from the Bank. Another one-third obtained the information through professionals like chartered accountants and management consultants. The government agencies propaganda and media appeared to have had little impact as only 5% of the borrowers, that too among those with limits less than Rs. 15 lacs, acquired information

from this source. The word of mouth served the purpose in about one-fourth of the cases, who indicated that information was provided to them by their friends, other customers and borrowers. Analyzing activitywise, it appears that professionals played a better role in respect of carpet exporters while the Bank was of more help to the borrowers belonging to other industries.

## 2. Assistance Provided by the Bank

It is interesting to find that as far as the nature of assistance provided by the Bank functionaries is concerned, 87% borrowers did not approach the Bank for technical aspects. Out of the 13% borrowers who approached Bank, only 3% could get significant help (Table 3).

**Table 3 : Assistance provided by the Bank in technical aspects**

Cate- gory	Responses							
	Insignificant Sub-Total		Significant Sub-Total		Not Approached Sub-Total		Grand Total Total	
A1	-	-	-	-	-	-	-	-
A2	2	2	2	2	28	28	32	32
B1	2	-	-	-	16	-	18	-
B2	2	4	-	-	14	30	16	34
C1	8	-	-	-	44	-	52	-
C2	-	8	2	2	4	48	6	58
D1	-	-	-	-	10	-	10	-
D2	-	-	-	-	-	10	-	10
T1	10	-	-	-	70	-	80	-
	13%	-	-	-	87%	-	-	-
T2	4	14	4	4	46	116	54	134
	7%	10%	7%	3%	86%	87%	-	-

46% of the borrowers could get significant help from the Bank in financial matters whereas 34% could not. However, 19% borrowers did not approach the Bank at all (Table 4). In respect of marketing aspects, 84% of the borrowers did not approach the Bank, whereas only 3% borrowers received significant help (Table 5).

**Table 4 : Assistance provided by the Bank in financial aspects**

Cate- gory	Responses							
	Insignificant Sub-Total		Significant Sub-Total		Not Approached Sub-Total		Grand Total Total	
A1	-	-	-	-	-	-	-	-
A2	14	14	16	16	2	2	32	32
B1	6	-	10	-	2	-	18	-
B2	2	8	12	22	2	4	16	34
C1	20	-	18	-	14	-	52	-
C2	2	22	4	22	-	14	6	58
D1	2	-	2	-	6	-	10	-
D2	-	2	-	-	-	6	-	10
T1	28	-	30	-	22	-	80	-
	35%	-	38%	-	27%	-	-	-
T2	18	46	32	62	4	26	54	134
	33%	34%	60%	46%	7%	19%	-	-

The Bank officers also mentioned that mostly they could assist the applicants in financial aspects only as they themselves were not equipped to handle technical and marketing matters.

**Table 5 : Assistance provided by the Bank on Marketing/other aspects**

Category	Responses							
	Insignificant		Significant		Not Approved		Grand Total	
	Sub-Total		Sub-Total		Sub-Total		Total	
A1	-	-	-	-	-	-	-	-
A2	-	-	2	2	30	30	32	32
B1	6	-	-	-	12	-	18	-
B2	2	8	2	2	12	24	16	34
C1	8	-	-	-	44	-	52	-
C2	2	10	-	-	4	48	6	58
D1	-	-	-	-	10	-	10	-
D2	-	-	-	-	-	10	-	10
T1	14	-	-	-	66	-	80	-
	18%	-	-	-	82%	-	-	-
T2	4	18	4	4	46	112	54	134
	7%	13%	7%	3%	86%	84%	-	-

### 3. Assessment of the skills of Bank officials

Though the borrowers might not be considered fully competent to rate the skills of the bank officers, a very interesting pattern, as depicted in Table 6 could be noted from their responses.

**Table 6 : Opinion about skills of bank staff at branch**

Category	Responses							
	Upto Average		Average		Good		Grand Total	
	Sub-Total		Sub-Total		Sub-Total		Total	
A1	-	-	-	-	-	-	-	-
A2	12	12	4	4	16	16	32	32
B1	4	-	8	-	6	-	18	-
B2	2	6	6	14	8	14	16	34
C1	18	-	26	-	8	-	52	-
C2	2	20	-	26	4	12	6	58
D1	4	-	6	-	-	-	10	-
D2	-	4	-	6	-	-	-	10
T1	26	-	40	-	14	-	80	-
	33%	-	50%	-	17%	-	-	-
T2	16	42	10	50	28	42	54	134
	30%	31%	19%	38%	51%	31%	-	-

Table 7 shows that many bank officers themselves felt that adequate skills were not available with them. The reasons attributed to such a situation were lack of training, lack of infrastructure, and lack of time to become familiar with the lending principles and entrepreneurial development.

**Table 7: Possession of requisite skills (bank officers' perception)**

	Yes	No	Total

Branch Managers	3	8	11
Other Bank Officials	2	7	9
Total	5	15	20
	33%	67%	

#### 4. Fear of Staff Accountability

It may be observed from Table 8 that about half of the bank officials were much concerned about the ultimate staff accountability for financing industrial ventures where higher risk was perceived. In this category the percentage of branch manager was 70. Bank officials giving higher weightage to this aspect were slow in providing financial assistance.

Table 8 : Concern of bank officials about ultimate staff accountability

	Not at all	Some what	Too much	Total
Branch Manager	1	3	7	11
Other bank officials	2	4	3	9
Total	3	7	10	20

#### 5. Developing Entrepreneurship among Borrowers

In respect of Bank's contribution towards the development of entrepreneurship among borrowers, it was found that while half of the carpet exporters had attended Banker-Exporter meets organized by the bank on a few occasions, the entrepreneurs of other industries had never attended any Entrepreneurship Development Program (Table 9).

**Table 9 : Borrowers who attended Entrepreneurship Development Programmes organised by the Bank**

Cate- gory	Responses				Grand Total	
	Yes Sub-Total	No Sub-Total			Total	
A1	-	-	-	-	-	-
A2	-	-	32	32	32	32
B1	4		14		18	
B2	-	4	16	30	16	34
C1	28		24		52	
C2	-	28	6	30	6	58
D1	10		-		10	
D2	-	10	-	-	-	10
T1	42		38		80	
	53%		47%			
T2	-	42	54	92	54	134
		31%	100%	69%		

Most of the borrowers felt that independent management consultants could provide more help to their enterprise than that provided by Bank officials.

**Table 10 : Services of management consultants useful**

Cate- gory	Responses				Grand Total	
	Yes Sub-Total	No Sub-Total			Total	
A1	-	-	-	-	-	-
A2	22	22	10	10	32	32
B1	16		2		18	
B2	10	26	6	8	16	34
C1	40		12		52	
C2	4	44	2	14	6	58
D1	8		2		10	
D2	-	8	-	2	-	10
T1	64		16		80	
	80%		20%			
T2	36	100	18	34	54	134
	67%	75%	33%	25%		

Among the bank officials, 11 were of the opinion that taking the help of independent management consultants would improve the financial management skills of the SSI entrepreneurs as well as the financial discipline among them. The other officers were of the view that such a step would not provide any tangible benefits, and the Bank's technical consultants were well equipped to educate the entrepreneurs.

## 6. Causes of Non-Performing Assets (NPAs)

Risk is an inherent ingredient of financing entrepreneurs. Banks are facing problem of high level of NPAs and the most important reasons for it, as perceived by bank officers have been summarized in Table 11.



**Table 11 Causes of NPAs identified by Bank officials**

Reason	Managers	Other Officials	Total
a) Inadequate skills in entrepreneurs	7	3	10 (50%)
b) Intentional defaults	2	2	4 (20%)
c) Lack of supervision and follow-up of credit by bank	-	1	1 (05%)
d) Indiscriminate financing	1	2	2 (15%)
e) Change in environmental conditions beyond control	1	1	2 (10%)
TOTAL :	11	9	20

It may be noted from the above figures that inadequate entrepreneurship skills have been found to be the most important single reason for NPAs. It indicates that the integrated approach to the development of entrepreneurship is not being given due importance.

## CONCLUSIONS AND SUGGESTIONS

From the above discussion it may be concluded that Banks have not been taking the task of entrepreneurial development in all seriousness as is evident from their casual approach to creating awareness amongst potential entrepreneurs as well as providing necessary assistance to the existing borrowers. The smooth running of day-to-day operations of business enterprises as also their ultimate development into self-sustaining systems do not seem to draw sufficient interest from the bankers who have financial stake in the enterprises. With the widespread changes being introduced into the banking sector, it has become important that banks keep a constant vigil over the enterprises being financed by them. On one hand, it has to be monitored that funds are being properly utilized in business, while on the other hand it has to be ensured that the enterprise does not fail because of poor management despite the best intentions of the entrepreneur.

Thus the banks now have to take over the reigns of the enterprises and play a constructive role in ensuring the ultimate viability of each enterprise. They have to develop the infrastructure and skill to assist the entrepreneurs. The Banks and the Government may join hands to establish and promote mobile and stationary training institutes equipped with well-designed programs and staff, which could identify homogenous groups of entrepreneurs and impart them the necessary training. This effort would surely result in improved quality of management in business enterprises and ultimately improved quality of assets for banks.

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