The Role of Banking Institutions in the Growth and Sustainability in Start-ups

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Abstract
The start-up scene in India has become a major driver of technical innovation, job creation, and economic expansion. Even while government programs like start-up India have promoted entrepreneurship, many firms continue to have difficulties obtaining official financial backing. By providing loans, financial services, and advising help, banking institutions-as official financial intermediaries-play a crucial role in supporting the expansion of start-ups. The purpose of this study is to assess the contributions of financial institutions to the growth and success of Indian start-ups. Using primary data gathered from 312 banking experts in both public and private sector for start-ups. The report identifies many major obstacles, including high perceived risk, a lack of collateral, start-up poor financial history, and legal restrictions that banks have to conform to when providing credit facilities to new businesses.
The results indicate that while banks recognize the potential of start-ups to spur innovation and job creation, their active involvement in start-up funding is constrained by a number of operational and risk-related constraints. The report makes insightful suggestions for enhancing the start-up funding landscape, such as enhanced credit guarantee procedures, banking awareness campaigns, and legislation changes. The findings of this study will be a valuable tool for financial institutions, legislators, and start-up entrepreneurs working to create a more welcoming and encouraging financial environment in India.

Keywords: Start-up India, Start-up entrepreneurs, Banking Institutions, Growth of Start-up, Financial Support, Sustainability

Introduction:
Over the past ten years, India's startup ecosystem has experienced unheard-of expansion, making the nation one of the biggest hubs for modern businesses worldwide. Startups are now significant force behind societal change, technical advancement, economic growth, and job creation. A strong foundation for promoting innovation, streamlining corporate rules, and making it simple for entrepreneurs to obtain financial backing was the goal of government programs like the Startup India Mission, which was introduced in 2016.
Access to sufficient and timely funding remains one of the most enduring issues Indian entrepreneurs encounter, notwithstanding the advancements brought about by encouraging laws and incentives. Due to their inexperience, lack of collateral, and the intrinsically risky nature of their endeavors, start-ups frequently have difficulty obtaining institutional finance, in contrast to established companies. In this regard, banks play a crucial part in helping companies become financially included by offering credit facilities and operating capital. Loans, project financing, and other financial services are essential to their needs for expansion and operation.
Bank participation on startup funding not only benefits the financial system but also advances more general policy goals including job creation, economic diversity, and technical development. However, due to issue with credit risk, company viability, legal constraints, and a lack of adequate risk mitigation methods, Indian banks are still hesitant to land to startups. In order to promote bank's involvement in the startup financing market, the Indian government Fund for Startups (CGFS) and priority sector lending rules for MSMEs and startups.
The research now in publication emphasizes that although banks recognise the substantial economic potential of startups, their operational and risk assessment frameworks frequently do not sufficiently correspond with the distinct financial requirements and business models of startups. Further impending seamless financial cooperation between banks and startups include administrative difficulties, perceptual hurdles, and a lack of knowledge regarding startup-friendly policies. Using primary data gathered from 312 banking professional from both public and private sector banks, this research article aims to close this gap by empirically analysing the role of financial institutions in fostering startup growth in India. The study's main objectives are to ascertain how bankers feel about funding startups, what operational and legal obstacles they face, and how much funding is presently provided to startups.
The purpose of this empirical investigation is to produce insightful information about Indian banks financing policies and preparedness to work with satrtup customers. It also aims to suggest concrete steps to improve access to formal funding for new businesses, improve cooperation between banks

and satrtups, and help crate a more inclusive and growth-oriented startup finance ecosystem in India. The active and successful involvement of banks in the startup economy is essential in a market where more than 1 lakh DPIIT-recognized businesses are registered and where new initiatives continue to influence the direction of sectors ranging from fintech to healthcare. Banking institutions can play a significant role in supporting India's entrepreneurial ambitions by closing the funding gap and resolving operational constraints.

Literature Review:

In both established and emerging nations, startups have become important forces behind innovation, job creation, and economic expansion. Startups must have access to sufficient funding in order to survive and expand, and banks are essential in helping fledgling businesses by offering formal financial services and loans. Numerous academics have studied the difficulties, possibilities, and procedures related to bank financing for satrtups throughout the years.

Gupta and Das (2017) highlighted that the difficulty in obtaining official financial backing is one of the main challenges encountered by Indian entrepreneurs. They pointed out that banks continue to see startups as high-risk businesses because of their unpredictable cash flows and lack of collateral, even if government programs like Startup India have raised awareness.

Similarly, **Kumar and Sahoo (2019)** observed that due to legal restrictions and a lack of efficient credit guarantee systems, Indian banks continue to take a cautious to take a cautious approach to lending to satrtups. According to their research, banks may be persuaded to actively participate in startup funding if specific government-backed funds and satrtup-friendly financial instruments are introduced.

Chatterjee and Kar's (2020) research on the financial issues experienced by Indian startup, these companies sometimes have trouble obtaining project funding and working capital loans from conventional banks. They concluded that banks must create frameworks for evaluating lending that are specifically suited to the particulars of satrtup company models.

Sharma and Goyal (2018) while the Credit Guarantee Fund Scheme for Startups (CGFS) enhanced bank's readiness to lend to startups, its widespread influence was limited by the lack of knowledge among banking professional and entrepreneurs, according to an analysis of the scheme's efficacy.

Nair and Pandey (2021) when bankers are making financing choices to companies, their perspective is a major factor. Their empirical research showed that, mostly as a result of strict procedural standards and risk-averse lending practices, public sector banks are generally more conservative than private sector banks.

Mishra and Shukla (2022) he out that banks are increasingly collaborating with financial technology companies since these partnerships provide chances for consumer outreach and product innovation. They did note, through that banks are still reluctant to lend money to fledgling fintech businesses without a track record of success.

Demirguc-Kunt, and Martinz Peria (2008) who researched the funding methods used by startups and MSMEs in underdeveloped nations. They concluded that although banks recognize the value of helping startups and small businesses, real-world obstacles, including asymmetric information, a lack of collateral, and lax law enforcement, deter banks from making large loans to these companies.

Patel and Shah (2023) investigated how government-led startup funding initiatives affected banks' lending practices and discovered that risk-sharing arrangements, incentive programs, and interest subvention programs greatly enhanced banks attitudes toward startup lending.

The combined results of research show that while banks acknowledge the economic promise of startups, their active involvement in funding new businesses is constrained by a number of operational, legal, and perceptional issues. The research that is currently available usually highlights the increasing need for financial innovations, better credit assessment methods, and more knowledge among banking professionals.

Using primary data gathered from 311 bankers around India, this study aims to add to this body of knowledge by empirically analysing the role, practices, and difficulties experienced by banking professional in fostering starups growth.

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Research gap:

Few studies have explicitly evaluated the attitudes and operational procedures of Indian banking professionals toward startup loans, especially using primary data, despite the fact that several studies have examined the difficulties associated with startup funding. This study examines 311 banks replies to close this disparity.

Objectives:

- To investigate the part banks serve in funding Indian entrepreneurs.
- To determine the difficulties banks have while making startup loans.
- To provide suggestions at the policy level to enhance bank financing for satrtups.

Research Methodology:

The goal of the project is to investigate how financial organizations might help Indian entrepreneurs expand. Primary data was gathered from banking experts, both offline and online, in order to meet the study's goals. Banking experts from both public and private sector banks who are directly or indirectly involved with startup finance, MSME lending, or credit operations were specifically chosen for the study using a purposive sample approach. This metho as selected to guarantee that the sample includes participants who are knowledgeable about and experienced with startup funding.

A total 311 structured questions were given to respondents using Google Forms and printed questionnaires during in-person visits in order to gather primary data. The survey was created using a five-point Likert scale, with 1 denoting strongly disagree and 5 denoting strongly agree. 284 of the questionnaires that were distributed were returned. Following data screening, 311 answers were deemed suitable for the study they were fully completed and free of missing information.

Data Collection

A standardized questionnaire was employed to gather primary data from bank managers and employees. Following the literature review, the questionnaire was development with the assistance of previous research. With 54 participants, the pilot research shed more light on the subject. Certain questions were reworded for easier comprehension in light of the employers' feedback from the pilot research. After the final questionnaire was distributed to the chosen sample, around 79.84% of them responded.

Table 1. Demographics of the Respondents.

Respondent Characteristics		Frequency	Percentage
Gender	Male	161	51.8
Female		149	47.9
Total		311	100.0
Age	Under 25	33	10.6
25-34		76	24.4
35-44		95	30.5
45-54		62	19.9
55 and above		45	14.5
Total		311	100.0
Education	High School	6	1.9
Bachelor's degree		125	40.2
Master degree		144	46.3
PhD		22	7.1
Other		14	4.5
Total		311	100.0

Source: the authors

Table 2. Bank Details

		Frequency	Percentage
Banks Type	Cooperative Bank	51	16.4
Private bank		95	30.5
Public Bank		120	38.6
Foreign bank		30	9.6
Other		15	4.8
Total		311	100.0
Job Tenure	less than 1 year	25	8.0
1-3		20	6.4
4-6		62	19.9
7-10		69	22.2
More Than 7 years		134	43.1
Total		311	100.0

Source: the authors

There were 47.9% female and 51.8% men in the sample. 10.6% of bank employers in the chosen areas under 25, 24.4% were between 25-34, 30.5% were between 35-44, 19.9% were between 45-55,

and 14.5 were over 55. As shown in Table 1, 46.3% 0f respondents have a master's degree, 40.2% have graduated, 7.1% have a Ph.D., 1.9% are below graduation, and the other 4.5% are other responses. The bulk of respondents-38.6% were from public banks, followed by private banks (30.5%), cooperative banks 16.4%, foreign banks 9.6%, and other banks 4.8% . Table 2 displays the frequency and percentage of employment tenure for bank employers that were part of the sample.

Data analysis

This research is a modest to determine how banking institutions might help startups develop. The study's data collection was quantitative in nature. By analysing two aspects-bank support and bank challenge and assessing their direct influence on the dependent variables, startup growth, the goals were achieved. Access to credit, financial advising services, loan processing speed, and startup-specific banking programs are some of the components of bank support. On the other hand, the banking problems component includes regulatory limitations, restricted financing solutions for startups, strict collateral requirements, and administrative complications. Since startup performance is impacted by a variety of operational, monetary, and market-related elements, it is necessary to take into account a number of criteria when analysing the development and sustainability of businesses. Even though there are many studies in the literature that try to pinpoint the factors that influence organizational growth, the results are sometimes inconclusive, especially when it comes to early-stage companies. A startup usually experiences a period of slow or stagnant development in the early stages of its lifetime while it establishes its operational model and financial base.

Sales growth, job creation, profitability, market expansion, and capital investment are just a few of the metrics that researchers have used to gauge startup success (Weinzimmer et al., 1998). Return on assets, return on investment, market share, net income, and business turnover have all been used in several studies to evaluate a company's success (Grornewegen & Langen, 2012; Singh & Hanafi, 2020; Wiklund et al., 2007).

The three main components of growth income growth, job creation, and company expansion capacity are taken into account when measuring startup growth in this study using the mean values of respondents' opinions.

Table 3. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure Of Sampling Adequacy	0.887
Bartlett's Test of Sphericity Approx. chi-square Df Sig.	1,763.009 87 0.00

Source: the author

Table 3. Communalities

	Initial	Extraction
Our bank actively supports start-ups with loans and other financial assistance.	1.000	.793
For new customers, the bank provides coaching and consulting services.	1.000	.861
Our bank has special financial strategies and remedies for new business owners.	1.000	.825
Over the past few years, our bank has seen a considerable surge in start-up funding.	1.000	.868
One of the primary obstacles to funding businesses is a lack of collateral.	1.000	.749
Bank view start-ups as high risk borrowers.	1.000	.879
Lending choice are hindered by inadequate financial data and business history.	1.000	.878
The start-up funding process is impeded by legal and legal constraints.	1.000	.867
The financial health of start-ups has improved thanks to bank financing.	1.000	.718
Start-ups operating capability has improved due to the availability of bank funding.	1.000	.924
Schemes tailored to start-ups have improved their chances of surviving and expanding.	1.000	.934
Support from banks has boosted startups overall company growth.	1.000	.794

Source: The Authors

Note: Principal Component Analysis: Extraction Method

Exploratory Factor Analysis

Exploratory factor analysis was used to identify the elements in order to meet the study's objectives. Literature research assisted in the selection of the factors, and a pilot study helped identify additional variables. To identify the variables, the questions were prepared in a random sequence.

EFA was performed by entering the completed survey and the answers into SPSS. The questionnaire in included 18 Likert-scale items at

first for the two independent variables that were part of the pilot testing; after six items were removed, there were only 12 items left. In Table 3, the data adequacy KMO value of 0.57 indicates that there are enough items for each component, and the results of the Bartlett's test of sphericity were significant at 0.000. According to the findings, factor analysis is sufficient as the value of KMO statistics is greater than 0.5 and Bartlett's test of sphericity is significant (Chawla & Sondhi, 2016).

Communalities

The square multiple correlations among one variable and every other variable are represented by the communality values. All of the components in Table 4 have appropriate communality values, which should ideally be more than 0.5.

The entire variation clarified through the exploratory factor analysis is shown in Table 5. According to Hair et al. (2014), the variables were reduced to three components with eigenvalues greater than one. The terms bank support, bank challenge and startup growth were chosen for the factors because they clarified the characteristics of the variables that were part of each element. A total of 83.001% of the variation was explained by the three components. These variables explained about equal amount of variation, with corresponding percentage of 28.625%, 28.123% and 27.253%.

The variables have been grouped into three uncorrelated factors, according to the results of the rotating component matrix. As shown in Table 6, the variable coefficient loading displayed values more than 0.70, which are deemed sufficient (Hair et al., 2014).

The Research Instrument's Dependability

By adding together the results of each questionnaire item, a composite score was produced. To ascertain the strength of the relationship between the qualities, a reliability test was conducted. Basic research is considered to be appropriate for the internal consistency reliability test when the reliability coefficient.

Table 5. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.414	61.785	61.785	7.414	61.785	61.785	3.435	28.625	28.625
2	1.576	13.130	74.915	1.576	13.130	74.915	3.375	28.123	56.748
3	1.090	9.086	84.001	1.090	9.086	84.001	3.270	27.253	84.001
4	.465	3.878	87.879						
5	.338	2.813	90.69						
6	.296	2.469	93.162						
7	.240	2.002	95.164						
8	.179	1.488	96.652						
9	.160	1.336	97.988						
10	.122	1.017	98.632						
11	.119	.996	99.004						
12	.016	.015	100.00						

Source: The Authors

Note: analysis of main components is the extraction approach.

Table 6: Component Matrix that has been rotated

	Component		
	1	2	3
Our bank activity supports start-ups with loans and other financial assistance.		.801	
For new customers, the bank provides coaching and consulting services.		.842	
Our bank has special financial strategies and remedies for new business owners.		.834	
Over the past few years, our bank has seen a considerable surge in start-up funding.		.859	
One of the primary obstacles to funding businesses is a lack of collateral.			.717
Bank view start-ups as high risk borrowers.			.849
Lending choice is hindered by inadequate financial data and business history.			.843
The start-up funding process is impeded by legal and legal constraints.			.842
The financial health of start-ups has improved thanks to bank financing.	.761		
Start-ups operating capability has improved due to the availability of bank funding.	.904		
Schemes tailored to start-ups have improved their chances of surviving and expanding.	.904		
Support from bank has boosted startup overall company growth.	.826		

Source: The authors

Note: principal component analysis was used for extraction, and Varimax with Kaiser Normalization was used for rotation, which converged after five rounds.

Table 7. Reliability Statistics

Cronbach's Alpha	N of Items
.942	12

Sources: The authors

Exceeds the 0.70 thershold of Nunnally's dependability criteria (Nunnall, 1978). According to Table &, the reliability coefficient for the scale employed in this investigation was 0.94, which is adequate. In addition to the scale's reliability analysis, Cronbach's alpha if items eliminated as performed to see how reliability values would change if any items were removed. It was discovered that every item is dependable for the variables it represents, and that removing any item lowers Cronbach's alpha, as shown.

Multiple Regression Analysis

Using multiple regression analysis, the association between bank performance and independent variables- specifically, bank support and bank challenge was studied. A Durbin-Watson value of 1.985 in indicates that the residuals are independent, meaning that there is no association between them. Two independent factors account for 40.2% of the variance in bank performance, as indicated by the coefficient of determination (R^2) of 0.402 Table 8. With an adjusted R2 of 62.4% the suggested factors statistically substantially predicted bank performance. According to Table 9 p-value (0.000) for the F statistic, the R value is significant

Table 8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistic				
					R Square Change	F Change	Df1	Df2	Sig. F Change
1	.634[a]	.402	.399	1.99824	.402	103.717	2	308	.000

Source: The author
Note: a. Predictors: (constant) BS.BC.

Table 9 ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	828.274	2	414.137	103.717	.000[b]
Residual	1229.835	308	3.993		
Total	2058.109	310			

Source: The author
Note: a. Dependent Variable: SG
b. Predictors: (Constant), BC, BS

Table 10 Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% confidence interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(constant)	2.998	.294		10.199	.000	2.419	3.576
BS	.178	.044	.240	4.044	.000	.092	.265
BC	.337	.045	.448	7.544	.000	.249	.425

Source: The author
a. Dependent Variable: SG

Standardized regression coefficients are used to determine the relative significance of the explanatory factors. Based on the findings, it can be seen that every one of the suggested factors explains start-up success statistically significantly ($p<.05$). To check for plurality, tolerance values are found to be close to 1 or well over (1-R2), indicating that there is no overlap between the predictors. The statistically significant relationship between independent factors and start-up success is demonstrated by the significance value ($p<.50$). Table 10 shows that the bank support score was 0.000, the bank challenge score was 0.00. Accordingly, H1, H2 are acknowledged in the perspective that the founder's entrepreneurial abilities have a beneficial effect on a start-up's performance.

Conclusion

This study was a small attempt to investigate the crucial role that banks play in fostering the expansion and long-term viability of start-ups. Through an analysis of a large primary data collection gathered from 311 financial institutions,

the study sought to determine how bank support services and bank related issues affected start-ups overall growth. The results underscore the crucial role of the banking industry in supporting start-up in new business settings, adding important empirical support to the growing area of entrepreneurship research.

According to the study's findings bank significantly and favourably contributes to the expansion of start-ups. In order to support the operational and strategic growth of start-ups, financial services such as quick credit availability, advising help, tailored loan schemes, and flexible financing policies were determined to be crucial. On the other hand, the research also found that significant barriers for start-up businesses are things like complicated procedures, collateral needs, a dearth of financial solutions tailored to start-ups, and banks, cautious lending policies.

According to these findings, banking institutions should provide more creative, inclusive, and start-up friendly financial services. They also highlight the need for a supporting financial infrastructure for fostering start-ups. Additionally, strengthening the banking system through the simplification of legal requirements and the improvement of financial advising support can help start-ups succeed and develop over time.

The study concludes by highlighting the significant contribution that bank support and financial challenge mitigation may make to the growth of a strong and resilient start-up ecosystem. The results have applications for financial institutions, legislators, and entrepreneurs who want to encourage a vibrant business climate.

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