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Fostering Entrepreneurial Growth: The Impact of Institutional Credits

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Abstract

This study is an attempt to find the role played by institutional credit for entrepreneurial growth in Bangladesh. Study is forwarded with 261 actual entrepreneurs selected on purposive convenience simple sampling method. Collected data is analyzed using SPSS 18 and the result is depicted through descriptive tools and Pearson correlations. The study found positive impact of institutional credit support to entrepreneurship development. The study covers actual data from entrepreneurs and analyzed data irrespective of gender and difference of geographical diversity. Amount of credit or portion of credit in total capital have influence on the profitability and the study suggest a ceiling on using credit for entrepreneurial profit. Still fostering of entrepreneurial development may further be triggered by monitoring of credit activities by financial institutions. This study infers some useful insights for potential entrepreneurs, management of credit institutions and policy maker including future researchers. The study is concluded suggesting efficient monitoring of credit activities by financial institutions that can be ensured by concerned authority.

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1.1: Introduction

In a globalized world where economy, society and environment encompass changing the economic sphere including technical revolution, entrepreneurship is striking issue for advancing special group of attention (McDaniel, 2005). Entrepreneurship is the process of creating new venture with effort, risk of business and encouraging modernization and creativeness (World Bank, 2007; Hisrich, 2005). The linkage of entrepreneurship is tied to various objectives as the state demands. The motivation of entrepreneurship is said enabling to help fulfilling the new challenges. Utilizing own skills and knowledge works as the motivation for entrepreneurial venture (Calvo et al., 2023). Entrepreneurship guarantees a justifiable income distribution through elimination of unemployment. While entrepreneurship creates employment, it needs money from organizations where prospective entrepreneurs compete for funding (Das, 2012). Keeping ownership undiluted requires institutional funding as conditions in other forms of financing causes lower productivity and hinders development of entrepreneurship (De Bettignies and Brander, 2007).

Financial systems have an impact on economic growth by redistributing funds to potential entrepreneurs who use it for their business ventures. Better financial systems raise the likelihood of successful innovation and hasten economic expansion. Similar to this, imbalances in institutional credits slow down innovation, which slows down the growth of economy (King and Levine, 1993). In order to support entrepreneurships' competitiveness and ongoing expansion, it is crucial that their financial infrastructure be well-developed and capable of accommodating their wide range of financing requirements (Khan and Anuar, 2018).

The institutional structure that serves entrepreneurial attempts have major role for the development of entrepreneurship, which in turn foster economic growth of a country (Sendra-Pons et al., 2022). The institutional structure facilitates the process of entrepreneurship by having supporting role but this lacks mostly in developing economy (Nabisaalu, and Bylund, 2021). The access to institutional credit facilities are found effective in business survival and growth (Qin & Kong, 2022). Lacking in finance hinders many potential entrepreneurial activities as having easier access to required credit greatly impact the success of entrepreneurial activities in many fold (Block et al., 2018). Securing more advantage of credit is linked with innovation in goods or services offered by entrepreneurs (Shane and Venkataraman, 2000). Extended availability of information regarding the credit from institutions lessen credit constraints and foster entrepreneurial growth (Fang et al., 2023). Among other institutional factors of entrepreneurship, credit coverage along with communication plays important role (Urbano et al., 2020). Immediate reactions to change, assertiveness and newer ideas makes institutional credit easy to entrepreneurs and leads to developed credit flow and hence improves the entrepreneurial development (Beltrame *et al.*, 2019).

Management skills, technology, marketing skills though important for business (SMEs) still the most important one that hinders the development of entrepreneurship is lack of adequate access to institutional finance (Ibrahim and Sharif, 2016). Investigators have given importance on strategic familiarity and application of various dimension including innovative way by which entrepreneurs can widen the accessing capacity to credit institutions (Beltrame *et al.*, 2019). Here, relationship with credit offering institutions play important role in the development of entrepreneurship (Kautonen *et al.*, 2020). Recent studies found access to credit is one of the most influential forces for increased investment and self-employment especially to those who lacks in finance (Beltrame et al., 2023). So, well-functioning state authority increases the potentiality of access to institutional credit facilities for entrepreneurs (Moro et al., 2020).

The study is guided with the objective to identify the impact of institutional credit facilities for the development of entrepreneurial activities. Effective usage of credit from institutions are found most important for success with other skills. Identifying the impact of institutional credit requires having an in-depth discussion on the credit management capacity of entrepreneurs in their venture, which is not very common in the study area covering recent time. Hence this study attempted to find the impact while looking into the portion of debt in total capital of entrepreneurial venture that might add information to the existing literature in the field.

1.2: Literature Review and Hypothesis Development:

The world economy is moving fast with the growth of entrepreneurship which has started with exchanging goods and services in earlier times. Entrepreneurship, financial development and economic growth are related. Financial facilitation affect growth and can further be enhanced by easing the financing to entrepreneurship. This can also work for better allocation of resources (Beck, 2013). Access to bank financing; a crucial source of start-up money remains a significant barrier for aspirant business entrepreneurs (Barrett, 1999). An entrepreneur possesses some qualities, including self-assurance, result-seeking, risk-taking, leadership, inventiveness, and a focus on the future (Islam and Aktaruzzaman, 2001), quote from the International Labor Organization (ILO, 1984). They have desire for success and willing to perform the required jobs on their way.

Institutional Credit and Development of Entrepreneurship:

Access to credit from institutions is crucial for ensuring the smooth development of entrepreneurship through institutional credit (Herkenhoff et al., 2021). For businesses in underdeveloped and least developed nations, access to institutional finance is so difficult that only 2% of account holders in formal financial intermediaries are able to access business development support services (Shehabuddin, 2010). An owner's business ownership grows significantly with personal credit but can’t move far without having easier access to institutional loans (Lakdawala, 2018). Due to the inadequacy of access to institutional financing, entrepreneurs frequently choose to focus their efforts on a small number of economic sectors as the initial investment is greatly reduced for difficulty of institutional finance (Ma, Wu and Gan, 2019). Without greater to and variety of services from institutional credit, entrepreneurial firms can only grow slowly and rely heavily on retained earnings to expand the size of their business (Bassetto et al., 2015). The range of services provided by financial institutions is substantial (Karanja and Nyambura, 2014) and assessing credit worthiness differently affect entrepreneurship, as effective interest rate is high (Safavian and Wimpey, 2007). Hence, the widening of services from credit institutions is essential for the growth of entrepreneurial ventures (Lakdawala, 2018; Bassetto et al., 2015). Institutional characteristics, such as the number of steps required to launch a new business, private credit coverage, and communication access, have an impact on opportunity-driven entrepreneurship (Urbano et al., ,2020). So, the review set a question either the institutional credit have any impact on entrepreneurship development or not and subsequently a hypothesis is developed as;

H*$_1$*: There is positive relation between institutional credit and development of entrepreneurship.

Profitability:

Institutional credit is essential with enough equity as it works as cushion and affects the profitability of entrepreneurial venture (Cathcart *et al.*, 2020) as owners capital is always limited in terms of need and personal credit has also limitation (Lakdawala, 2018). Institutional support in filling the gap of working capital strengthen the profitability (Setianto, et al., 2022).

The enthusiast entrepreneurs always based on their profitability for securing access to credit with higher confidence of repaying the loan (Ibrahim and Sharif, 2016). A positive association between access to institutional credit and performance of venture is most often observed though some other factors also work (Munizu, 2010). Impact on profitability is not same for all business as there is differences of experiences. Benefit experienced by small and medium business is more than larger firms, it further implies a trustworthy credit relation influence the profitability of venture (Kafouros et al., 2022). So, a research question is developed as how is profitability affected by institutional credit facilities and subsequently a hypothesis is developed, as;

***H$_2$*:** *There is positive relation between ratios of credit (in total capital) and perceived profitability.*

1.3: Methodology:

Structured questionnaire is formed for collecting data from the primary sources. Items of entrepreneurship development and institutional credit is identified from review of literature. Among factors of entrepreneurship development, facilities, risk taking, innovativeness, strong desire for success with no delusion of ownership are identified. Institutional credit contains items including, availability, easiness, wider access, supporting services from financial institutions, etc. A total of 300 sample respondents are contacted to fill up the structured questionnaire (five-point lickart scale) pointing 1 as strongly disagree to 5 as strongly agree with the statement. After having the data collected as filled up 261 was found complete and ready for analysis. Purposive convenience simple random sampling technique is used as the plot of the study seems appropriate for this type of sampling. Demographic data is analyzed on descriptive statistics with frequency distribution so that this study can have an idea on the profile of entrepreneurship. Next part is solely done on the basis of (two Tailed) Pearson correlation tests at 5% level of significance. The result is finally depicted on Microsoft office word document file with tables, and result of correlation test. Discussion on the findings is made to make the view clearer that institutional credits and development of entrepreneurship.

1.4: Result and Discussion:

Table-1: Demographic Information:

Age		Gender		Education		Marital Status	
18-25	17	Male	189	SSC	00	Married	189
25-35	93	Female	72	HSC	23	Unmarried	66
35-45	129	Others		Bachelor	157	Others	6
45-55	22			Master	62		
>55				Others	19		
Total	261		261		261		261

Source: Author's Data (2022)

The data from the demographic table (table 1) shows that 17 (6.5%) entrepreneurs belong to the age group of 18-25, 93 (35.6%) to the group of age 25-35 there are 129 (49.4%) respondents belong to the age of 35-45 and 22 (8.4%) respondents belong to the age group of 45 to 55 and not respondents were found in more than 55 of age. Among all the 261 respondents, more is male 189 (72.4%) and less are women (27.6%, 72 of 261). About less than half of the male entrepreneurs are female. More respondents have obtained the bachelor degree with 157 of 261 (60%) followed by a master degree with a number of 62 (23.7% of

261). The least is found in the segment of others where this means any other forms of education. This constitutes (7.3%) 19 of 261 respondents and HSC constitutes 23 (8.8%) from a total of 261 respondents. The study discloses the information on the marital status and found 189 as married and 66 as unmarried while 6 remain as others. This other section holds the numbers of respondents who are either single or divorced.

Institutional Credit and Entrepreneurship Development:

Table-2: Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
Entre	3.6835	.37117	261
I.C	3.5251	.36158	261

Descriptive statistics in tables-2 comprises data relating to the mean value of all the variables taken into account for the development of entrepreneurship is 3.6835, and the standard deviation is 0.37117 (higher mean, lower standard deviation). Comparatively, institutional credit (I.C) is found to have the same number of observations (261 in this study), a mean value of 3.5251 and a standard deviation of.36158. The data set with the highest mean and lowest standard deviation is eligible for further examination and produces accurate findings.

Result:

The outcome of statistical analysis showed a positive correlation between entrepreneurship and institutional credit support. The result is statistically significant (r: 0.133; p: 0.032<0.05). Here, institutional credit support serves as the independent variable and entrepreneurship development serves as dependent variable for the conceptual framework. The result is consistent with existing findings as in Nigeria Ibrahim and Sharif (2016) found the financial capital as most easily convertible resources that positively affects the success of entrepreneurship. The findings are stronger as it is observed that lacking in access to proper finance from institutions cause lower performances of entrepreneurial ventures (SMEDAN, 2012) while having proper access to finance enhance the profitability (Demir & Caglayan, 2012).

Table-3: Analysis of Correlations:

Correlations			
		Entre	I.C
Entre	Pearson Correlation	1	.133*
	Sig. (2-tailed)		.032
	N	261	261
I.C	Pearson Correlation	.133*	1
	Sig. (2-tailed)	.032	
	N	261	261
*. Correlation is significant at the 0.05 level (2-tailed).			

Discussion:

Test of Correlations: The analysis indicated that, with a Pearson correlation value of 0.133, the relationship between institutional assistance (credit) and the development of entrepreneurship is statistically significant at the 5% level of significance. The Pearson correlation coefficient of 0.133 demonstrates a statistically significant relationship between the investigated variables. The value discovered in this study (0.032), which ranges from 0.00 to 0.05, demonstrates unequivocally that entrepreneurial growth and institutional credit support exhibit meaningful connections. Pearson diagonal correlation with a unit value indicates absolute (auto) correlation for any two variables. Study with 261 sample with a correlation value of 0.133, significant at 5% level of significance (0.032). This result supports the evidence of strong positive association between institutional credit and entrepreneurship development.

Hypothesis: The hypothesis (significant association of institutional credit and development of entrepreneurship) is failed to reject since the test result of Pearson correlation (two tailed) shows statistically significant correlation with a value of 0.133 and significance value of 0.032. The current findings show similarities with previous (Ibrahim and Sharif, 2016).

Ratio of Credit and Entrepreneurship Profitability

A descriptive table below (table-4) shows that with the rise of ratio of debt in total capital, entrepreneurs are pressurized and hence found with less satisfaction. While up-to 30% debt capital is found to be more appropriate, more than 30% debt causes entrepreneurs to be less satisfied in their entrepreneurship. The less debt is seen way for the development of entrepreneurship in success. This may seem contradictory but the study found institutional credit is necessary not without a capacity of entrepreneurs for the proper management.

Table-4: Ratio of Credit and Profitability of Entrepreneurship

		Total					
		Strongly not supportive and not profitable	Not supportive and not profitable	Neutral	Supportive and profitable	Strongly supportive and profitable	
Total loan capital	below 20%	4	7	35	53	2	103
	21 to 30%	9	4	30	42	9	94
	31- 40%	6	1	12	22	1	43
	41-50%	2	0	2	10	0	14
	more than 50%	0	0	2	5	0	7
Total		21	12	81	132	12	261

Source: Author's data (2022)

The chi-square test for the result is tested, as;

Table-5: Chi square test result:

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.843[a]	20	.297
Likelihood Ratio	25.928	20	.168
Linear-by-Linear Association	.031	1	.860
N of Valid Cases	261		

Source: Author's data (2022)

The Pearson chi-square test shows that the ratio of credit (in total capital) has no statistically significant relation with entrepreneurial success (p=.297). The result may seem contradictory, still entrepreneurs are found mostly happy with up-to 30% debt capital. So, the hypothesis-2 (ratio of credit have positive impact on profitability of entrepreneurship) is rejected. This implies that ratio of institutional credit has statistically insignificant impact on the profitability of entrepreneurship that stage the development. It also founds that up-to 30% institutional credit have been of most useful with positive impact but more than that credit reduces the profitability. The easiness and amount of credit has been found having effect on the profitability of entrepreneurship but limited to the capacity of managing the credit and arrangement of repayment. So, it is clear that institutional credit supports the development of entrepreneurship but not in unlimited space.

1.5: Recommendations:

The study's findings are validated by previously published research in the subject. It is clear from the results that there are several recommendations that can help institutional financing grow entrepreneurship more quickly. First, as other research indicates, it is important to guarantee that entrepreneurship develops smoothly by providing access to institutional credit. In addition, it is advised that financial institutions (IC) expand its services to support the expansion of business endeavors. The creative concept of entrepreneurship has the potential to facilitate access to a broader range of institutional credit services. It is also advised to keep an eye on the services provided by credit institutions, such as banks, non-governmental organizations, and development partners, to guarantee that the services are more effectively tailored to the needs of the moment.

1.6: Conclusion:

Bangladesh has experienced a smooth growth of entrepreneurship with the support of traditional and non-conventional financial institutions. The blessing of entrepreneurship development is observed with the facilitation of institutional support and this study found effective outcome for the development of entrepreneurship. From the inference of positive correlations found in the study, it reemphasizes institutional credit for speedier development of entrepreneurship. The study has added newer information that, up-to 30% credit support magnify the return while more of that are found having negative effect on the profitability of entrepreneurs. This is an addition to the existing literature in the field of entrepreneurship development through the support of institutional credit. So, this calls for a specific boundary of using credit for ensuring profitability of entrepreneurship. Ensuring proper documentations and sufficient equity before seeking institutional credit might encourage institutional lenders rendering more support for entrepreneurship development. Monitoring of existing credit scheme from financial institution may stimulate the growth of entrepreneurship. The study found positive relation and infers insights for policymakers in formulating policy for credit institutions and entrepreneurs may use for keeping optimum mix of credit in the overall capital structure of their venture.

The present study is a reflection of institutional credit facilities and development of entrepreneurship in Bangladesh. The findings can be of most use to potential entrepreneurs striving for starting venture with institutional financing. Policy makers relating to entrepreneurial development may find the findings useful in formulating appropriate policy. The study is based on primary data and limited to some specially selected area covering only district level data. Further digging might be more sweetening by taking samples from all the districts of Bangladesh. A cross gender analysis and or regional differences analysis can be made. Further, comparative study can be made with entrepreneurs who use institutional credit with entrepreneurs who don't.

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