



Role of Institutional Finance in Promoting Growth of Small Retail Enterprises: A Study in Hassan District

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ABSTRACT

Small retail shops form the backbone of the Indian economy, contributing significantly to employment generation and local economic development. Despite their importance, many small retail shop owners face financial constraints that hinder their growth and sustainability. Access to timely and adequate financial assistance from banks plays a crucial role in overcoming these challenges. This study, titled “*Role of Institutional Finance in Promoting Growth of Small Retail Enterprises: A Study in Hassan District,*” aims to examine the extent of financial assistance provided by banks to small retail shop owners and analyze its impact on business growth, profitability, and sustainability. Primary data were collected from 80 small retail shop owners through a structured questionnaire. Statistical tools such as percentage analysis, mean score analysis, and correlation analysis were employed. The findings reveal that bank loans, overdraft facilities, and government-supported schemes significantly contribute to business expansion. However, procedural complexities, lack of awareness, and collateral requirements remain major barriers. The study concludes that improving financial accessibility and awareness can enhance the performance of small retail businesses.

1. Introduction

1.1 Background of the Study



The study titled “Role of Institutional Finance in Promoting Growth of Small Retail Enterprises: A Study in Hassan District” aims to examine the extent to which financial assistance from formal banking institutions contributes to the development and sustainability of small retail businesses. Small retail enterprises such as grocery stores, textile outlets, stationery shops, and general stores form a crucial component of India’s informal and semi-formal economy. These businesses not only generate employment but also ensure the availability of essential goods and services to local communities in both rural and urban areas.

In recent years, the retail landscape has undergone significant transformation due to the emergence of supermarkets, organized retail chains, and digital platforms. This shift has intensified competition, compelling small retailers to modernize their operations and improve efficiency. In this context, institutional finance plays a pivotal role by enabling retailers to maintain adequate inventory levels, upgrade physical infrastructure, adopt digital payment technologies, and expand their scale of operations.

Banks and financial institutions offer various financial products, including term loans, working capital assistance, overdraft facilities, and government-backed schemes such as Pradhan Mantri Mudra Yojana. However, despite the availability of such financial support, many small retailers in Hassan District face challenges in accessing formal credit due to factors such as lack of collateral, limited financial literacy, and procedural complexities. This study, therefore, seeks to analyze these issues and understand the real impact of institutional finance on retail business growth in the region.

1.2 Problem Statement

In the context of Hassan District, small retail shop owners encounter a range of financial challenges that significantly affect their ability to grow and sustain their businesses. One of the primary issues is the limited access to institutional credit. Despite the presence of banks and financial institutions, many small retailers find it difficult to obtain loans due to stringent eligibility criteria, lack of proper documentation, and absence of collateral security. As a result, formal financial support remains out of reach for a considerable segment of these entrepreneurs.

Due to these constraints, small retail shop owners often depend heavily on informal sources of finance such as moneylenders, friends, and relatives. While these sources may provide quick access to funds, they usually come with high interest rates and unfavorable repayment conditions. This dependence increases the financial burden on retailers and reduces their profitability over time, making it harder for them to reinvest in their businesses.



Another critical issue is the lack of financial literacy among small retailers. Many shop owners are not fully aware of the various financial products, government schemes, and banking procedures available to them. This knowledge gap prevents them from making informed financial decisions and limits their ability to effectively utilize available credit facilities.

Additionally, complex loan procedures and lengthy approval processes further discourage small retailers from approaching formal institutions. The documentation requirements, procedural delays, and lack of guidance create barriers that hinder access to timely finance. Collectively, these challenges restrict business expansion, operational efficiency, and long-term sustainability, highlighting the need to examine the role of institutional financial assistance in improving the performance of small retail enterprises in the district.

1.3 Objectives of the Study

- To examine the types of institutional financial assistance provided by banks
- To analyse the level of awareness among retail shop owners in Hassan District
- To evaluate the impact of bank finance on business growth
- To identify challenges faced in availing bank loans

1.4 Hypotheses

- **H1:** Institutional financial assistance significantly influences business growth
- **H2:** Awareness of banking schemes affects access to finance
- **H3:** Procedural difficulties negatively impact loan utilization

2. Review of Literature

Financial assistance and access to credit are key determinants of growth for small businesses in developing economies like India. Studies highlight the importance of financial inclusion, banking support, and policy interventions in strengthening micro and small enterprises. The Reserve Bank of India (2023) notes improved credit access through formal banking, though challenges such as collateral requirements and low financial literacy persist. The Government of India (2022), through the PMMY scheme, has enhanced access to collateral-free loans, benefiting small retailers, but awareness remains



limited. The Ministry of MSME (2023) emphasizes the sector's contribution to employment and GDP, while pointing out gaps in credit accessibility.

Globally, the International Finance Corporation (2019) identifies a significant MSME financing gap. Empirical studies by Beck et al. (2005) and Ayyagari et al. (2007) confirm that financial constraints hinder small firm growth. In India, Sharma (2016), Kumar and Rao (2015), and Singh and Wasdani (2016) highlight issues like procedural barriers and lack of awareness. The World Bank (2020) stresses inclusive finance and digital solutions as key enablers of SME growth.

Research Gap

While extensive literature exists on MSMEs and financial inclusion, most studies focus on the sector. Limited research specifically addresses small retail shop owners in regional contexts like Hassan District. This study attempts to bridge this gap by focusing on the role of institutional finance in influencing the growth and performance of small retail businesses.

3. Research Methodology

3.1 Research Design

The present study adopts a descriptive research design to systematically examine the role of institutional finance in promoting the growth of small retail enterprises in Hassan District. A descriptive approach is considered appropriate as it enables the researcher to capture existing conditions, behaviors, and perceptions of retail shop owners regarding access to financial services. The study focuses on understanding real-world financial challenges, usage patterns of banking services, and their impact on business performance. To achieve this, a survey method was employed, allowing for the collection of first-hand information directly from respondents in a structured and reliable manner.

3.2 Data Collection

Both primary and secondary data sources were utilized to ensure a comprehensive analysis. Primary data were collected through a well-structured questionnaire designed with closed-ended and Likert scale questions to measure respondents' opinions, satisfaction levels, and experiences with institutional finance. The data collection process involved direct personal interaction with shop owners as well as the use of digital forms to improve reach and efficiency. Secondary data were gathered from credible sources such as government reports, banking publications, journals, and previous research studies, which helped in building a theoretical foundation and supporting the empirical findings of the study.



3.3 Sample Size and Sampling Technique

The study is based on a sample size of 80 small retail shop owners operating in different parts of Hassan District. A convenience sampling technique was adopted due to ease of access and time constraints. Efforts were made to include respondents from various types of retail businesses such as grocery stores, textile shops, and general stores to ensure diversity and broader representation of the retail sector.

3.4 Tools for Data Analysis

The collected data were analyzed using appropriate statistical tools to derive meaningful insights. Percentage analysis was used to present the distribution of responses in a simple and understandable form. Mean score analysis helped in identifying the average level of agreement or satisfaction among respondents. Correlation analysis was applied to examine the relationship between access to institutional finance and key business performance indicators such as growth, profitability, and expansion. These analytical tools enabled the researcher to interpret the data effectively and draw valid conclusions.

4. Data Analysis and Interpretation

Table 1: Demographic Profile

Variable	Category	Frequency	Percentage
Gender	Male	52	65%
	Female	28	35%
Experience	Below 5 years	30	37.5%
	5–10 years	28	35%
	Above 10 years	22	27.5%

Explanation:

The majority of respondents are male, but female participation is also notable. Most shop owners have less than 10 years of experience, indicating a growing trend of new entrants in retail businesses.

Table 2: Types of Financial Assistance Aailed

Type of Assistance	Mean Score	Rank
Bank Loans	4.3	1

Type of Assistance	Mean Score	Rank
Overdraft Facility	4.0	2
Mudra Loans	3.8	3
Credit Cards	3.5	4

Explanation:

Bank loans are the most preferred source of finance due to their structured repayment options. Overdraft facilities are also popular for managing working capital.

Table 3: Awareness Level of Banking Schemes

Awareness Factor	Mean Score	Rank
Knowledge of Loan Schemes	3.9	1
Interest Rates	3.7	2
Government Subsidies	3.5	3
Documentation Process	3.3	4

Explanation:

Respondents have moderate awareness of loan schemes but lack detailed knowledge about documentation and subsidies, indicating the need for financial education.

Table 4: Impact of Financial Assistance

Impact Factor	Mean Score	Rank
Business Expansion	4.4	1
Increase in Profit	4.2	2
Inventory Management	4.1	3
Digital Adoption	3.9	4

Explanation:

Financial assistance significantly contributes to business expansion and profitability. It also helps in maintaining adequate inventory and adopting digital technologies.

Table 5: Challenges in Availing Bank Finance



Challenge	Mean Score	Rank
Complex Procedures	4.5	1
Collateral Requirement	4.3	2
Lack of Awareness	4.1	3
Delay in Approval	3.9	4

Explanation:

Procedural complexity is the biggest barrier, followed by collateral requirements. These factors discourage many small shop owners from seeking bank finance.

5. Correlation Analysis

- Financial Assistance vs Business Growth: $r = 0.66$
- Awareness vs Loan Access: $r = 0.61$

Interpretation: There is a strong positive relationship between bank finance and business growth. Awareness also plays a significant role in accessing financial services.

6. Hypothesis Testing**H1: Financial assistance significantly influences business growth – Accepted**

The correlation value ($r = 0.66$) indicates a strong positive relationship between financial assistance and business growth. This shows that access to bank finance enables retailers to expand operations and increase profitability.

H2: Awareness affects access to finance – Accepted

The correlation result ($r = 0.61$) supports the hypothesis that awareness of banking schemes improves access to financial assistance.

H3: Procedural difficulties negatively impact loan utilization – Accepted

High mean score for procedural complexity (4.5) confirms that complicated processes discourage effective utilization of bank loans.

7. Findings of the Study



The study conducted in Hassan District reveals that small retail shops depend significantly on institutional finance, particularly bank loans, for their growth and day-to-day operations. Retailers increasingly rely on formal credit to maintain inventory, meet working capital needs, and expand their businesses. Although awareness regarding financial schemes and banking facilities exists at a moderate level, it is not sufficiently widespread or deep, especially among rural and semi-urban shop owners.

The findings further indicate that financial assistance has a direct and positive impact on business performance, including increased sales, improved infrastructure, and higher profitability. However, procedural complexities such as extensive documentation, lengthy approval timelines, and rigid eligibility criteria remain major obstacles in accessing finance. Collateral requirements also act as a significant barrier, particularly for small shop owners who lack tangible assets to pledge.

Additionally, the study observes a growing trend in digital adoption, as financial support enables retailers to use digital payment systems and modern tools. A strong positive relationship is identified between access to finance and overall business performance, confirming that institutional credit is a key driver of retail growth.

8. Discussion

The findings clearly highlight the crucial role played by institutional finance in strengthening small retail enterprises. Financial assistance from banks not only supports operational stability but also enhances the capacity of retailers to compete in an increasingly modernized and competitive market environment. However, structural challenges such as complex documentation processes, stringent collateral requirements, and limited financial awareness continue to restrict the effective utilization of these financial services.

These observations are consistent with earlier studies that emphasize the importance of financial inclusion in promoting small business development. Government initiatives like Pradhan Mantri Mudra Yojana have improved access to finance, but their success largely depends on how well they are understood and implemented at the grassroots level.

The discussion suggests that simplifying loan procedures, reducing bureaucratic hurdles, and promoting financial literacy can significantly enhance access to institutional finance. Improved awareness and user-friendly banking systems can encourage more small retailers to shift from informal to formal financial sources.



9. Conclusion

Small retail shop owners in Hassan District play a vital role in local economic development by generating employment and ensuring the availability of essential goods and services. The study concludes that institutional finance has a positive and significant impact on their growth, profitability, and long-term sustainability. Access to timely and adequate financial resources enables retailers to modernize, expand, and improve their competitiveness.

However, to fully realize these benefits, certain measures need to be prioritized. Simplifying loan procedures can make banking services more accessible, while increasing awareness programs can help retailers better understand available financial schemes. Expanding collateral-free loan options will particularly benefit small entrepreneurs who lack assets, and strengthening digital banking support can promote efficiency and transparency.

Overall, promoting financial inclusion through effective policies and supportive banking practices will significantly enhance the development and resilience of small retail enterprises, contributing to broader economic progress in the region.

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