

# Performance of Rural Entrepreneurs - A Study

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**Abstract:** *The literature on rural entrepreneurship reveals distinct features that set it apart from mainstream entrepreneurial activities. In the background of special features, it is difficult to measure the performance rural entrepreneurs using the methods used to measure the performance of mainstream entrepreneurs. In this study we attempt to measure the performance of the rural entrepreneurs not with the intention of understanding the individual differences and their impact on their performance but with the intention of understanding impact of rural environment on the performance of the entrepreneurs. The study was conducted in three taluks based on their regional development, return of investment and distance from urban areas. All the entrepreneurs were selected based on convenient and snow ball sampling methods. Collected data were processed and tabulated by using the statistical package for social sciences. Frequencies were found and frequency tables were prepared. It can be safely inferred that relation between location of a unit and performance are positively related. Rural non-farm sector activities which are operating in locations away from the city or towns are relatively less successful. All those villages which are nearer to cities or towns have gained by economic liberalization policies and those villages which are far away from the cities have remained backward.*

**Key Words:** *Distance, Performance, Rural Entrepreneurs, Return on Investment, Rural non-farm sectors.*

## 1. INTRODUCTION :

The literature on rural entrepreneurship reveals distinct features that set it apart from mainstream entrepreneurial activities. Unlike their urban counterparts, a limited number of entrepreneurs from lower social backgrounds venture into industries of varying scales. Entrepreneurs tried their best to prove that Indian entrepreneurs are also motivated by the same motivating factors which have motivated people in western countries to take up entrepreneurial activities. A large number of rural entrepreneurs were not pulled to achieve something or to prove their ability. They are not pulled but they have been pushed to entrepreneurial activities due to a number of factors such as failure of agriculture or loss of employment or to loss of income. In the management part also, rural entrepreneurs do not follow the management practices described in the text books neither in managing their finance nor in managing their markets. They have created their own methods of managing to deal with finance, market and other problems of their business. In the background of these special features it is difficult to measure the performance rural entrepreneurs using the methods used to measure the performance of mainstream entrepreneurs. In other words, we need to consider some other method which is capable to capture the performance of rural entrepreneurs. Along with this note on method another important factor which actually necessitated the performance measurement needs to be discussed here. In the case of urban or mainstream entrepreneur's performance is measured to know individual differences of entrepreneurs and their role in differentiating their performance. Here we attempt to measure the performance of the rural entrepreneurs not with the intention of understanding the individual differences and their impact on their performance but with the intention of understanding impact of rural environment on the performance of the entrepreneurs.

## 2. Problematization :

The need to assess the impact of rural environment on the performance of rural entrepreneurs arises due to a number of factors such as bottleneck of economic and social infrastructure and the spatial effects on the distribution of benefits of liberalization. Here we give details of some studies which argue that even in rural areas benefit of liberalization does not spread equally to all villages. Anirudh Krishna and Devendra Bajpai argue that globalization driven economic growth in a country whose population remains largely rural has spatial effects on the distribution of benefits. Distance from market can influence individual's economic prospects. By limiting access to market based

opportunities distance can influence individual's economic prospects. They concluded that the distribution of benefits from economic growth since the early 1990's has followed an identifiable spatial pattern. People in the largest cities have achieved the greatest gains, followed by people in small towns and villages close to towns. Further away, the villages located more than five kilometres from the nearest town inflation adjusted per capita incomes fell between 1993 and 2005.<sup>1</sup>

Survey undertaken by National Council for Applied Economic Research shows that per capital income in the villages nearer to towns and cities increased by 15 percent and poverty reduced by 3 percent. The same report says that the per capital income of individuals of those villages which are 10 kilometres away from the towns rather increasing decreased and poverty has increased.<sup>2</sup> One of the explanations offered for this variation in per capital income between regions which are nearer to and away from cities is the difference in social and economic infrastructures between cities and villages. Shukla says individuals with minimum education can earn up to 68 percent more by living in a metro city as compared to a smaller town.<sup>3</sup> Kijima says villagers who are nearer to cities benefit more because their lands grow in value and their labour is in greater demand. People in distant villages do not have much to offer to the present day development. Their lands being at a distant place is not attractive to the real estate dealers or to industrialists. In rural areas with low level of social infrastructures people do not have skills which have demand in the market.<sup>4</sup>

In the above paragraphs we have seen the post liberalization impact on people living in cities and villages and also in villages nearby cities and villages far away from cities. We have considered along with the economic and social infrastructure bottlenecks the distance from towns as the main challenges to the rural entrepreneurs. We also assumed that the spatial distribution of rural units may have some impact on their earnings. In order to understand the spatial impact on the performance of rural entrepreneurs we have constructed a simple indicator called performance index based on the rate of return on investment. Needless to say, such confinement would not provide comprehensive picture. But it is hoped that what is lost in extensiveness is gained in intensity of focus. The main variable which are considered to have influence on the performance of rural entrepreneur are return on investment based on the indicator of distance.

Previous research has shown that micro and small entrepreneurs in poor countries achieve relatively high marginal returns to capital but show very low reinvestment rates.<sup>5</sup> The literature is rather inconclusive about the possible causes. Some studies point to capital market imperfections which cannot be overcome despite the relatively high marginal returns.<sup>6</sup> Others highlight in addition the role of risk which requires that households hold cash if investments are largely irreversible.<sup>7</sup> Jakiela and Ozier studied the problem of solidarity by conducting lab-experiments in rural Kenyan villages. In these experiments they found that participants who know that the outcome of their investment will be made public choose decisions that are less profitable in expectation. They conclude that the risk pooling arrangements operating in the village and family are inefficient.<sup>8</sup> Grimm et al. analyse a sample of rural-to-urban migrants in seven West-African cities. They distinguish kinship ties within the city from kinship ties to the migrants' villages of origin. They found that family and kinship ties within the city rather enhance labor effort and the use of capital. However, the stronger the ties to the village of origin, measured by the closeness to the village of origin, lower the input use. They found that local family and kinship networks were supportive to entrepreneurial activities. But stronger social network has another dimension where the entrepreneurs were forced to redistribute some part of their earnings in order to keep the social network intact.<sup>9</sup>

Indian data also highlights the role of small and intermediate urban centers in local economic diversification, in particular as a basis for non-farm economic activity. Services, transport and commerce account for a large proportion of output and employment in settlements with a population between 5,000 and 100,000 inhabitants. The enterprises in these locations tend to rely heavily on the surrounding village economy both as a supplier of inputs (including labour) and as a market for goods and services. At the same time, town dwellers often engage in farming while nearby village residents pursue a whole range of livelihood activities in town. Shane, Banerjee and Newman opined that income is thought to affect the probability of engaging in early-stage entrepreneurship through two main channels, which work as opposing forces for the low income entrepreneur. As the gap between current income and the opportunity cost of starting a business increases the probability of engaging in entrepreneurship also goes up.<sup>10</sup> Low-income or poor potential entrepreneurs should have a higher prior likelihood of starting a business relative to high-income individuals with similar characteristics.<sup>11</sup> At the same time, low income individuals are much more likely to experience difficulty in accessing finance since few banking and financial services extend finance to these people in India.<sup>12</sup> According India Rural Development Report (IRDP) says that growing rural-urban integration is gradually changing villagers' horizons and gender roles in rural areas in both positive and negative ways.<sup>13</sup>

The findings of the existing studies on the performance of entrepreneurs substantiate the relation between investment and income of entrepreneurs. All these gaps in the existing researches force us to raise a question on the existing body of knowledge on rural entrepreneurship. Is there any difference between the performance of rural entrepreneurs operating in villages nearby towns and in villages far away from towns? In order to answer all the question

an extensive and in depth study is needed. It is important to note that investment in private sector is extremely concentrated and micro and small entrepreneurs in poor countries achieve relatively high minimal returns to capital but show very low reinvestment rates. If local family support and ties and networks are supportive to entrepreneurial activities the possibility of reinvestment is more. In the background of the above review of literature on investment and income we are going to discuss the performance of rural entrepreneurs of the present study.

### **3. Objectives of Study :**

- To understand the literature on performance of rural entrepreneurship.
- To analyze the factors impacting on performance of rural entrepreneurship.

### **4. Method of the study :**

This is an empirical study based on data collected from rural entrepreneurs located in two districts of Karnataka. Districts were selected based on their level of development. Two documents produced by the Government of Karnataka were used to decide the level of development. They are - one, High Power Committee for Redressal of Regional Imbalances Report, 2002,<sup>14</sup> and two, Human Development Report, 2014.<sup>15</sup> These reports have taluk-wise data on all the socio-economic indicators. Taking rate of development as the basis these reports have ranked the taluks of the state. Based on these data two taluks (Doddaballapura and Devanahally) were selected from the developed district (Bangalore Rural) and one taluk (Madhugiri) was selected from the backward district (Tumkur). Bangalore Rural District has 1,052 villages. Devanahally taluk has 214 villages. Out of these 214 villages 22 villages were randomly selected for data collection. Doddaballapura taluk has 298 villages out of these villages 21 villages were randomly selected for data collection. Tumkur districts has got 2574 villages and Madhugiri taluk has 298 villages, out of these 20 villages were randomly selected for data collection.

Rural entrepreneurs engaged in varied commercial and petty production activities are scattered in villages of the districts. For the purpose of the study tiny unorganized rural non-farm entrepreneurial activities were considered. Tiny non-farm activities were identified using the definition given by the National Commission for Enterprises in the Unorganized Sector, 2007 (NCEUS).<sup>16</sup> NCEUS considers the following as tiny and unorganized or informal activities - all unincorporated private enterprises owned by individual or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers. The above definition applies equally to all the sectors of the economy including agriculture.

One more criteria was used to select the villages for data collection, that was, the distance from the taluk headquarters. Two sets of villages were considered for study – one, villages which are within 10 kilometers of distance from the taluk headquarters and two, villages which are at a distance of more than 10 kilometers from the taluk headquarters. Based on convenient sampling method in Madhugiri taluk 09 villages which were within 10 kilometers distance and 10 villages which were at more than 10 kilometers distance from the taluk headquarters were visited for data collection. In Devanahally taluk 15 villages which were within 10 kilometers and 8 villages which were at a distance of more than 10 kilometers were selected for data collection. In Doddaballapura taluk 09 villages which were within 10 kilometers distance and 09 villages which were at a distance of more than 10 kilometers were visited for data collection. In villages where more tiny units are operating 4 to 5 rural entrepreneurs were interviewed and in villages where less numbers of tiny units are operating only one entrepreneur were interviewed. All the entrepreneurs were selected based on convenient and snow ball sampling methods. In the selected villages the following tiny non-farm activities were considered for data collection. They are provision stores, stationery shops, bakery shops, flower sellers, vegetable sellers, medical shops, mutton shops, timbers sellers, cloth sellers, brick seller, toy traders, beedi manufactures, garage centers, fruit sellers and street vendors.

In order to collect data from the above primary sources schedule method, that is, combination of questionnaire and interview method was used. In addition to the primary sources, data were also collected from secondary sources. The major secondary sources used were journals, articles, books, research papers, reports, and websites. Collected data were processed and tabulated by using the statistical package for social sciences. Frequencies were found and frequency tables were prepared. For the purpose of analysing the performance we have considered only variables like investment of rural entrepreneurs and return on investment to them. To test the spatial impact on performance we have divided rural enterprises in two groups – enterprises which are operating within the radius of 10 kilometres from the nearby town or city and units operating at above 10 kilometres distance from town or cities. Based on the rate of return on investment (ROI) four groups of rural entrepreneurs were identified. They are – entrepreneurs earning less than 15 percent, entrepreneurs earning between 15 and 25 percent, entrepreneurs earning between 25 and 35 percent and entrepreneurs earning more than 35 percent RRI.

## 5. Discussion :

Table: 1 Performance of Rural Entrepreneurs (in percentages)

RRI	Below 10 K.M.			Above 10 K.M		
	Devanahally	Doddaballapur a	Madhugiri	Devanahally	Doddaballapura	Madhugiri i
< 15	12	06	13	31	22	20
15 – 25	12	19	07	15	22	27
25 – 35	23	19	20	15	14	13
>35	53	56	60	39	42	40
Total	100	100	100	100	100	100

Note – RRI = rate of return on investment

Source: Researcher's Calculation Based on Field Survey

In the above table we can see the performance of rural entrepreneurs of selected three taluks. It is very much clear from the above data that the units which are nearer to the towns are performing better than units which far away from towns. The table shows that in Devanahally taluk 53 percent units which are nearer to the towns earn more than 35 percent RRI while among the units which are far away from towns only 39 percent units have more than 35 percent RRI. In Doddaballapura taluk 56 percent units which are nearer to the towns earn more than 35 percent RRI while among the units which are far away from towns 42 percent units more than 35 percent RRI. In Madhugiri taluk 60 percent of the rural units which are nearer to the towns earn more than 35 percent RRI and among the units which are far away from towns 40 percent earn more than 35 percent RRI. In the better performance of the units nearer towns and no so better performance of units away from towns the role of social and economic infrastructure cannot be ignored. Devanahally and Doddaballapura are nearer to Bangalore cities. New International Airport is located in Devanahally. Since the day of Airports inception land rates in and around Devanahally shot up. Even in villages land prices have increased many folds. Many rural entrepreneurs we have studied were earlier farmers. With the operation of the airport real estate companies operating in the city began to rush to Devanahally. So land rates have risen even in villages. Farmers who were struggling to meet their basic needs from the agriculture sold their lands for hefty sums. Most of them kept the money in fixed deposits and many of them invested small portion of the sale proceedings in small entrepreneurial activities. With development of airport and also with the development of real estate business physical infrastructure like roads, transportation, storage, banking, schools, hospitals, commercial activities have increased in the headquarters of the taluk and also in the nearby villages.

Doddaballapura taluk is also a part of Bangalore Rural district. The taluk is located at a distance of forty kilometres from the Bangalore city. In recent days a number of large scale industries, Textile Park, information technology parks and other industries are established near Doddaballapura taluk. Taluk is connected to the metro city by four way road and railways. This taluk may not be growing as fast as Devanahally but it not far behind Devanahally in terms of hike in real estate prices and also hike in the wages of labourers. Taluk headquarters and nearby villages are connected with all-weather roads, continuous power supply and other communication facilities. A number of private schools and colleges are established their units in Doddaballapura to take advantage of relatively cheap land prices. In this way Doddaballapura is also experiencing fast growth and performance of rural entrepreneurs of nearby villages is relatively better than the performance of entrepreneurs whose units are operating in extreme villages. Compared to these two taluks Madhugiri is a remote taluk. It is neither connected to district headquarters nor to Bangalore city. Here the difference in the growth of infrastructure between rural and urban area is not all that significant. In spite of the above fact here also units operating near the town or taluk head quarter have performed better than units operating in faraway locations from the town.

## 6. Conclusion :

It can be safely inferred that relation between location of a unit and performance are positively related. Findings of our study more or less goes along with the findings of studies in other places. Rural non-farm sector activities which are operating in locations away from the city or towns are relatively less successful. All those villages which are nearer to cities or towns have gained by economic liberalization policies and those villages which are far away from the cities have remained backward. Much economic activity in small and medium-sized towns is closely interrelated to the surrounding village economy through consumption, production, employment and financial linkages, and various types of economic and social service provision. Hence, while an expansion of the small town economy is intimately dependent on development dynamics at village level, the reverse is also true. In other words, the nature and extent of economic linkages between rural towns and their hinterland, and between the former and the wider economy, constitute key factors



shaping local development dynamics and potential. Rural-urban linkages at the local level are shaped by a complex range of factors, including resource endowments, transport and other economic infrastructure, social and economic structures, and policies and institutions at the macro and sector levels.

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