

## Entrepreneurship: An Overview of the Issues and Challenges in the Context of Rural Development in India

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### Abstract

In the present liberal scenario, entrepreneurship development in the rural context is a challenge. The present paper is an attempt to understand the issues and challenges for rural entrepreneurship development in India. The analysis is then broadened to understand the various issues like importance of rural entrepreneurship, constraints faced by the rural entrepreneurs and a framework for encouraging rural entrepreneurship. The paper also suggested some measures which may be viewed as challenges for the development of rural entrepreneurship.

In conclusion, the study indicated that monitoring rural development programmes by supplying right information at the right time, providing timely and adequate credit and continuous motivation of the bankers, panchayat union leaders and voluntary service organizations will lead to the development of rural entrepreneurship.

**Key Words:** *Entrepreneurship, Policy Implications, Rural Enterprise, Micro Credit Schemes*

### Introduction

Entrepreneurship can be defined as “the process of creating value by pulling together a unique package of resources to exploit an opportunity” (Stevenson *et al.*, 1985). Entrepreneurship is an important tool through which the quality of life for individuals, families and communities can be improved and thereby it can sustain a healthy economy and environment. Entrepreneurship development in rural areas is a challenge in the present liberal scenario. It requires an environment that largely depends on the policies encouraging rural entrepreneurship. There exists a huge gap between demand and supply, which is to be reduced by the Government as well as by the large and small size entrepreneurs by understanding the needs of the people and customizing the products according to their requirement. Rural entrepreneurship is a new field in the area of entrepreneurship research. It has become one of the supportive factors for rural economic development and agribusiness. In this backdrop, the present paper addresses the issues and challenges for development of entrepreneurship in the context of rural India.

This paper has been structured in the following way:

First, it makes a review of the available literatures relating to entrepreneurship development.

Secondly, it states the importance of rural entrepreneurship.

Thirdly, it deals with the problems faced by the rural entrepreneurs.

Fourthly, it describes the framework for encouraging rural entrepreneurship.

Fifthly, it deals with policy implications that are necessary to create conducive environment for rural entrepreneurship.

Finally, some suggestions are offered which may be viewed as challenges for rural entrepreneurship development.

### Review of Past Studies

The available relevant literatures are briefly summarized as follows:

Piore and Sable (1984), in their book, “The Second Industrial Divide”, provided a policy framework for small business development which states that economic development will be more successful if it takes place within a political context, where local communities actively support small-scale enterprises.

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Petrin (1992), in a study observed that to accelerate economic development in rural areas, it is important to build up the critical mass of first generation entrepreneurs.

Keeble *et al.* (1992), in their research work found that SMEs in rural areas in the UK have better performance than that of their urban counterparts in terms of employment growth.

Petrin (1994) in another article concluded that rural development is now being largely linked to entrepreneurship. It acts as a vehicle to improve the quality of life for individuals, families and communities in order to sustain a healthy economy and environment.

Storey (1994) in his study found that policy measures can influence the level of entrepreneurship.

Lyson (1995) indicated the prospects of small-enterprise framework as a possible rural development strategy for the economically disadvantaged communities.

Vaessen and Keeble (1995) revealed that the external environment in the more remote rural areas presents challenges for SMEs, which they need to adapt to if they are to survive and grow.

Smallbone and North (1997) revealed that firms with highest level of innovative behaviour were growing in terms of sales and employment, although the relationship between innovation and growth is an inter-dependent and mutually reinforcing one, rather than a simple cause and effect relationship.

Lu Rongsen (1998) in a study in the area of western Sichuan highlighted the important factors that were responsible for rapid development of enterprises. The factors include local natural resources, development of infrastructure, strong and integrated policy support from Government, well planned marketing strategy and linkage with larger companies and organizations for nationwide marketing and abroad.

Gavian *et al.* (2002), in their study, have suggested that SMEs are traditionally thought of as well poised to respond to the increased demand by creating jobs.

Giannetti and Simonov (2003) found that apart from the role of individual characteristics, access to capital and institutions, social factors may also play in the decision to become an entrepreneur. Social interactions affect the payoffs from a variety of economic decisions.

Sherief, (2005) attempted to understand the determinants of rural entrepreneurship and the environment conducive to its development. The study concluded that to accelerate economic development in rural areas, it is necessary to promote entrepreneurship.

Ramalingam and Gayatri (2009) stated that innovation could be used as a strategic tool for development of entrepreneurship. The study concluded that small innovation in the rural area would definitely catch up the majority of the population, thereby leading to better quality of life of many people in the country.

Ganly, Kate and Mair, Johanna (2009) stated that one way to conceptualize the role of social entrepreneurs in social change processes is to view them as institutional entrepreneurs, i.e., entrepreneurial actors who introduce and push through the alternative conceptions of social, political or cultural order. The study addresses the issues of institutionalized inequality and social exclusion through community development work in eastern India.

Sharma, Swati, Vyas and Divya (2011) indicated that various social, economic, political and ecological problems in rural areas in developing countries like India create challenges in employment, decreasing agricultural production and increasing food shortage. This has resulted a huge impact on the domestic production, employment etc. To a certain extent, these problems can be solved by developing entrepreneurship in rural India.

Mehta, (2011), in his study indicated that many Indian companies including MNC started developing business strategies to tap the untapped rural market in India. The study will be

helpful for the various agencies to formulate plans and policies in order to boost the rural entrepreneurship in India. This may help to make the Indian rural market as a critical force in the global economy.

From the review of literature as mentioned above, we found few studies in the context of rural development in India. Hence, the present study is just another attempt to contribute to the existing literature.

### **Importance of Rural Entrepreneurship**

Entrepreneurship development is essential for the first generation entrepreneurs, particularly in the rural areas. Promotion of rural entrepreneurship is important for generating employment. The importance of rural entrepreneurship is briefly highlighted as follows:

#### ***i. Reduction of Poverty and Unemployment:***

Through entrepreneurship development programme, unemployed people can opt for self-employment. In this respect, several programmes like National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP), etc. are in operation in India to help the potential entrepreneurs.

#### ***ii. Balanced Regional Development:***

By setting small scale units in remote areas, successful entrepreneurship development programmes can help in achieving balanced regional development.

#### ***iii. Harnessing Locally Available Resources:***

Entrepreneurship development programme can help in harnessing the locally available resources by training and educating the prospective entrepreneurs.

#### ***iv. Prevents Industrial Slums:***

Proper entrepreneurship development programmes helps in the reduction of industrial slums by providing various attractive schemes, incentives, subsidies, etc. in the non-industrialized areas.

#### ***v Reduces Social Tension:***

Entrepreneurship development programmes defuses social tension by providing self – employment careers to the talents of the educated youth.

#### ***vi Capital Formation:***

Entrepreneurs who supply their own and borrowed funds for setting up enterprises are taken as the organizers of factors of production. This all results in the process of capital formation.

#### ***vii Improvement in Per Capita Income:***

Entrepreneurs generate more output, employment and wealth by exploiting new opportunities, thereby helping to improve per capita income.

#### ***viii Economic Independence:***

Entrepreneurs can produce different types of better quality goods and services at competitive prices of imported goods which help in promoting economic independence.

#### ***ix. Overall Development:***

Efficient and effective use of limited resources by the entrepreneurs leads to overall economic development of an area.

### **Problems faced by the Rural Entrepreneurs**

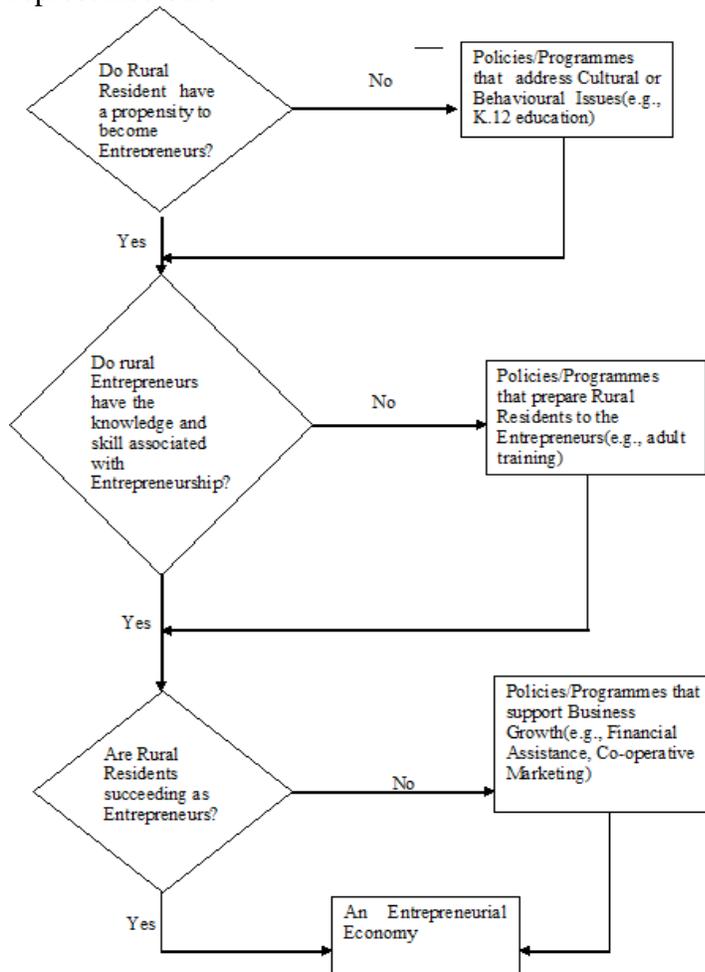
The factors that act as constraints to rural development are identified below:

- Limited scale and scope of local market opportunities.
- Compared to the urban context, there are fewer opportunities for firms to subcontract out locally.
- Limited access to financing, both for start-ups and expanding enterprises.
- Difficulties for women entrepreneurs to get access to support and financial services.

- Low share in the domestic market and almost no share in the external markets.
- Lack of expertise in the area of domestic and external marketing.
- Political and economic instability.
- Excessive regulations and formalities.
- Problems relating to acquisition of inputs.
- Little specialization and training.
- Lack of organization and integration to undertake associative projects.
- Lack of competitiveness of rural firms.
- Poor infrastructural facility and low skill base of many rural areas.
- Lack of knowledge and self-confidence of the rural people due to limited experience and lack of education.

### Framework for Encouraging Rural Entrepreneurship

Jay Kayne with Kauffman Foundation provides a general framework for encouraging rural entrepreneurship. The framework provides the critical questions necessary to evaluate the entrepreneurial opportunity in a rural place. The framework suggested by Jay Kayne (2000) is represented below:



Source: Jay Kayne, Kauffman – Centre for Entrepreneurship Leadership, 2000

### **Policy Implications for Development of Rural Entrepreneurship**

The appropriate policy elements for development of rural enterprises are briefly stated as follows:

- Policies should be flexible to facilitate local circumstances.
- The nature of enterprises to be established in rural areas must be conducive to those areas in economic, social and environmental terms.
- Rural enterprise policy should cover all types of rural enterprise.
- There should be consistency and co-ordination with respect to the choice of rural enterprise locations.
- Petrin (1994) advocates the following features for rural entrepreneurship development:
  - i. Sound national economic policy for agriculture, including recognition of the important contribution of entrepreneurship to rural economic development.
  - ii. Policies and special programmes for development and channeling of entrepreneurial talent.
  - iii. Entrepreneurial thinking about rural development by everyone.
- Organization for Economic Co-operation and Development (OECD, 1999) advocates best practices in four broad areas related to SMEs that are suitable for both agro industries and other rural enterprises. They are:
  - i. Efficient and unbiased financial markets.
  - ii. Appropriate business environment.
  - iii. Education, training and capability to compete.
  - iv. Access to information, networking and the global market place.

### **Suggestions for Development of Rural Entrepreneurship**

In spite of the problems faced by the rural entrepreneurs as identified earlier in this paper, the suggestions that are offered which may be viewed as challenges for the development of rural entrepreneurship are stated as follows:

- Various Government programmes like IRDP, TRYSEM, YOAJANA and PMRY etc. are getting due recognition and new thrust areas have been given in policy support of the Government.
- Setting up of ancillary units in rural areas will lead to better productivity of many engineering industries.
- Village resources are abundantly available. Hence, it should be utilized effectively. For example, wind energy can be fully exploited for rural electrification.
- Micro credit schemes have already been initiated in various programmes, like SHGs. This will boost up the economic development and employment generation of the rural poor.
- Past experience and other observations should be considered to develop rural entrepreneurship.
- Market information of different products and innovative technology should be publicly announced in order to get its acceptance among the rural entrepreneurs.
- Essential infrastructure facilities like land, power, raw materials and finance should be provided to the rural entrepreneurs at concessional rates.
- Credit history information of the rural entrepreneurs has to be developed so as to enable them to get sufficient amount of loan from the banks at reasonable rate of interest.
- Strength and weakness of small businessman has to be identified and then they should be properly trained and motivated to become entrepreneurs.

- Innovators club may be established in rural villages to support the large mass of youth who are interested in taking business as a career.
- Marketing management skills should be improved among the rural entrepreneurs to improve their skills and the problem of rural unemployment.
- Management training is to be imparted to create awareness of innovative spirit among the rural entrepreneurs. In this respect, Government is conducting frequent camps in rural areas.
- Awards should be given to those entrepreneurs who demonstrate extraordinary success.
- Finally, entrepreneurship development cell should be established at all village level. Also entrepreneurship guidance and counseling cell need to be there to motivate the entrepreneurs regarding the use of modern technology in each and every sphere of business.

### Conclusion

In India, about 75% of the households live in villages. This is estimated to grow in the near future, which makes it a big market in the world. In recent times, more and more entrepreneurs are realizing the potential of rural market and have started focusing on it. Therefore, promotion of rural entrepreneurship is extremely important in the context of producing gainful employment and reducing the widening disparities between the rural and urban population. Rural entrepreneurship is necessary to minimize poverty and to overcome low productivity in the farm sector.

To conclude, monitoring rural development programmes by supplying right information at the right time, providing timely and adequate credit and continuous motivation of bankers, panchayat union leaders and voluntary service organizations will lead to the development of rural entrepreneurship.

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