

Entrepreneurship and Rural Development

Kanchan Jha

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Published by:



NEERAJ PUBLICATIONS

(Publishers of Educational Books)

Sales Office : 1507, 1st Floor,

Nai Sarak, Delhi-110 006

E-mail: info@neerajbooks.com

Website: www.neerajbooks.com

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Typesetting by: Competent Computers

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Sample Preview of The Chapter

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ENTREPRENEURSHIP AND RURAL DEVELOPMENT

UNDERSTANDING ENTREPRENEURSHIP

1

Entrepreneurship: Concept and Theories

INTRODUCTION

An entrepreneur is someone who organizes, manages and assumes the risks of a business or enterprise. An entrepreneur is an agent of change. Also, entrepreneurs are individuals who recognize opportunities where others see chaos or confusion.

Entrepreneurship is the process of discovering new ways of combining resources. Entrepreneurship is the act and art of being an entrepreneur or one who undertakes innovations or introducing new things. These new things can be any of the start-ups. The most obvious form of entrepreneurship is of starting any new business. Entrepreneurship relates to the pursuit of risky and innovative business ventures to capture new opportunities. Entrepreneurs are innovators, willing to take risks and generate new ideas to create unique and potentially profitable solutions to modern-day problems. Entrepreneurship is not so much a skill as a habitual state of mind. In this chapter, you will learn who is an entrepreneur. You will be familiar with different theories of entrepreneurship. You will also understand the meaning of innovation and adaptation in entrepreneurship. You will assess the factors responsible for creation of entrepreneurs and hurdles in making of a good entrepreneur.

CHAPTER AT A GLANCE

CONCEPT OF ENTREPRENEUR

Genesis of the Word Entrepreneur

Entrepreneur is a loanword from French. It is defined as an individual who organizes or operates a business or businesses. Biographer Anthony Breer noted that Cantillon saw the entrepreneur as a risk-taker while say considered the entrepreneur a "planner". Cantillon defined the term as a person who pays a certain price for a product and re-sells it at an uncertain price: "making decisions about obtaining and using the resources while consequently admitting the risk of enterprise." The word first appeared in the French dictionary entitled "Dictionnaire Universel de Commerce" compiled by Jacques des Bruslons and published in 1723.

Richard Cantillon an Irishman staying in France focus on the unique non-insurable risk bearing responsibilities of an entrepreneur has to bear the risk

involved in the business and he has to face the consequence of bankruptcy in the time of depression. An entrepreneur buy certain products with a purpose to sell them at uncertain price in the future.

An industrialist who is a aristocrat, Jean Baptise who had extreme experience. He clearly distinguish between the function of an entrepreneur and the capitalist. He explain the risk is involved in the entrepreneurship and business. The functions of an entrepreneur are co-ordination, organization and supervision. He says that the most important agent of production who provides continuing management and bring together factors of production. An entrepreneur must possess the art of superintendance and administration, judgement. Knowledge of the world and that of the business also the functions and responsibility of an entrepreneur.

Non-recognition of the Entrepreneurship

Cantillon and **Say** emphasized and delineated the function of the entrepreneur, the English economist belongs to this school did not contribute in any appreciable manner towards the conceptual and theoretical formulation on entrepreneurship.

Adam Smith says that the sole motive of the entrepreneur is to provide wealth and capital for use by his workers. He differentiated the term between profit and interest and these terms are used interchangeably. The profit basically led to the path of saving and increment the business. According to Adam Smith the determinant of growth was the rate of capital formation. He did not distinguish between the functions of entrepreneur and capitalist. He did not stress on the factors of risk-bearing and co-ordinate that is the part of the business. He refers three categories for entrepreneurs and capitalist—those who live by profit, those who live by rent, those who live by wages.

Richardo also stress on the essential role of the rate of capital accumulation in the theory of economic development. He stress on other two points which effect the rate of capital accumulation—the ability to save and the will to save. He says both profit and wages affect each other to some extent. The Recardian did not agree to the Adam Smith he says that economy not to be strictly depend on the rate of investment for its expansion or decay. To develop and maintain the state of economy we need to manipulate and improve the socio-cultural variables and needful technologies.

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J.S. Mill, in his theory tries to differentiate between the entrepreneurial function and the concept of providing capital. Alfred Marshall do not agree with the concept of Smith and Ricardian. He treats profit as a single undifferentiated income flow. While Marshall makes a clear difference between the capitalist and the undertaker. He defines undertaker as who do not follow the beaten track to increase their earning by adopting new and improved methods of doing business which is later initiated by his competitors reducing the profit.

Recognition of the Entrepreneurship

Now we will read the definition of entrepreneur by different theorists. Leon Walrus focus on the theory of equilibrium in which he says entrepreneur as the fourth factor of production who hires and coordinate the other three factors which are – land, labour and capital. An entrepreneur is the buyer of productive services and the seller of produced goods. In a competitive world an entrepreneur is responsible for ensuring the market to move towards a general equilibrium. An entrepreneur should enter into the area of production which are profitable, increase the output, thus reducing the profit. An entrepreneur should leave the arena of production which are incurring losses and he should check the output and losses very often.

In considering modern economic theory there should be tendency to relegate entrepreneurship to catch all these factors. These factors are entrepreneurship alongwith technology, education, institutional organization etc. So the function of an entrepreneur is emphasized as a factor in production and exchange of goods.

Schumpeter says an entrepreneur is a very creative and innovative person, on the other hand a capitalist lacks the sense of creativity and innovation. His creativity add to man in economic situation and improve the further expansion of economic activities. He clearly make distinction between an innovative skilled and managerial skilled. So an entrepreneur is not a person who manage the day-to-day routine work, and an entrepreneur is not the person who invest the money, but he is the person who bring about some essential changes by implementing, some innovative element that leads to the growth and expansion of the business. So there is a very clear distinction between the profession, occupation and entrepreneur. All these terms are differ from each other.

During the industrial revolution and coming of big corporations and institutions, he experienced the need of economic growth and developed and gave the theory of economic development. Schumpeter's theory of economic development as a critical engineer for development focus on these things:

1. Finding out a new source of supply.
2. Opening up of a new market.
3. Adoption of a new technology.
4. Bringing about a new organization of an industry.
5. The introduction of a new product.

Entrepreneur as Critical to Economic Development:

A. H. Cole, T.C. Cochran, G.H. Evens

A.H. Cole, G.H. Evens and T.C. Cochran laid stress upon the critical role played by the entrepreneur in economic development and growth. Cole says "Entrepreneurship is an integrated sequence of action taken by an individual or by a group operating for individual business units in a world characterized by a large degree of uncertainty."

Evens defines the concept of the entrepreneurs as "person who initiate, organize and control the affairs of business in that combine factor of production to supply goods and services, whether business pertains to industry, trade or profession."

Cochran defines the term as, "student of entrepreneurship generally have come to agree that while it is a definable function, entrepreneur is a term denoting an ideal type rather have a term continuously applicable to a real person. Any business or other official may exercise entrepreneurship, but a classification cannot be devised that would empirically separate entrepreneurs and non-entrepreneurs."

Entrepreneur Organization: Frederick Harbison

Frederick Harbison says that entrepreneur is an organization in which all the person need to perform certain entrepreneurial functions. These functions are:

1. Planning and innovation.
2. Undertaking or managing of risk and the handling of economic uncertainty.
3. Coordination, administration and control.
4. Routine supervision.

In a very small institution all the functions are performed by an individual, on the other hand in a large institution the functions and responsibilities have to be performed by a lot of persons who belongs from complex categorization.

Harbison says the collective group of persons who are performing the entrepreneurial functions known as organization. The organization refers to connoting the constellation of functions, person and abilities used in management of the enterprise and an organization also highlights the nature of integrating these skills and capability into a common undertaking. The notion of organization is very similar to the notion of capital accumulation. The benefit of this concept is that it gives the quantitative measurement of the things that how much we have invested in organization and how much we have invested on machinery or equipments and accumulation of managerial resources.

According to Maurice Dobb the responsibility of an entrepreneur is the co-ordination, controlling or the entrepreneurial force that is required in any society with modern economic methods including machines, techniques and extensive distribution of labour workers and artisans.

Emphasis on Micro-economic Models:

William J Baumol and Harvey Leibenstien

William Baumol distinguishes between the innovative entrepreneur, who comes up with new ideas and puts them into practice, and the explicative entrepreneur, which can be anyone who launches a new business venture, regardless of whether similar

ventures already exist. Baumol puts forward a quasi-formal theoretical analysis of the innovative entrepreneur's influential role in economic life. In doing so, he opens the way to bringing innovative entrepreneurship into the accepted body of mainstream micro-economics, and offers valuable insights that can be used to design more effective policies. The Micro Theory of Innovative Entrepreneurship lays the foundation for a new kind of micro theory that reflects the innovative entrepreneur's importance to economic growth and prosperity. Leibenstien, Harvey, "Entrepreneurship and Development" suggesting a theory of entrepreneurial economics and using this theory to explain the value of entrepreneurship within the economy. Rather than taking sides with a certain type of entrepreneurial activity. Leibenstein considers two sides, what he calls routine entrepreneurship (well-defined markets) and N-entrepreneurship (Schumpeterian-like). He introduces ways and possibilities of how both can exist within the economy, illustrating characteristics of the entrepreneur such as, risk-bearer, taking ultimate responsibility, gap-filler, input-completer and the ability to evaluate economic opportunities. Leibenstein's procedure to both theories rests upon inputs and outputs of entrepreneurship and the fact that entrepreneurship is a resource, a scarce one to be specific. Since his theory describes entrepreneurship as a resource, Leibenstein implies that entrepreneurship has value in the economy in the sense that the creation and fruition of tools and technology expands the economy and its features. But he states that because entrepreneurship is not predictable, controllable or undetermined, it becomes scarce because the "up-and-coming" entrepreneurs have a lack of input-completing capacities. Thus, in some cases a well-defined market is impossible and that is his reason for considering both routine and N-entrepreneurship.

Considering Entrepreneurs as Passive: H.J. Habakkuk, Phyllis Deane and Douglas North

According to the empiricist and historians entrepreneurship has a central place in the economic theory of development. H.J. Habakkuk, Phyllis Deane and Douglas North say an entrepreneur has to play a passive part by major determinants like invention, changing factor prices and market opportunities.

According to all the famous historians lacks "the rigour of either of these extreme on preference to a or realistic (of over determined) multi-casual model embracing economic, sociological and historical determinants."

Kilby ask that what is the task that an entrepreneur has to perform? Kilby replies "the array of all possible entrepreneurial roles encompasses the perception of economic opportunity, technical and organizational innovations, gaining command over scarce resources, taking responsibility for the internal management and for the external advancement of the firm in all its aspect."

He further adds that "in any particular time and place the skilled performance of certain of these tasks

by the entrepreneur is critical while other tasks little attention or can be safely delegated to subordinates. Thus, different setting may call from markedly dissimilar entrepreneurial personalities."

The immediate question arise after knowing the importance of entrepreneurial function in economic growth and development are that who are an entrepreneur and whom can become an entrepreneur and where do they come from or where can one look for them, ether they are in abundance or in dearth? All these are very separate questions but they are also related to each other to some extent.

THEORIES ON ENTREPRENEURSHIP

This is a section, which carries inter-related theories, concepts, which will seek to guide the research in determining the variables to be measured, and statistical relationship to be worked on. This is also important to this study since the methodology employed is on explanatory basis. This will enable understanding of what is not noticed about the case study. Proposed theories to be discussed in relation to this study are; Entrepreneurship Theories, Scientific Management Theory, Bureaucratic Management Theory and Human Relations Movement.

Max Weber's and Schumpeter Theory

Max Weber (1864-1920) held religion as the major driver of entrepreneurship, and stressed on the spirit of capitalism, which highlights economic freedom and private enterprise. Capitalism thrives under the protestant work ethic that harps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur. It implies that carrying out of new combinations of entrepreneurship is basically creative activity. According to him, an entrepreneur is one who perceives the opportunities to innovate. Innovation involves problem solving and the entrepreneur is problem solver. Schumpeter puts the stress on innovation, not on the invention. The entrepreneurial function consists not of inventing things, but rather of bringing knowledge to life and into the market. Schumpeter himself assumes that with innovation existing structures are destroyed. He saw the markets, realistically viewed, as dominated by oligopolies. Competition, and with it a more efficient allocation of resources, arises only through the invasion of these markets by new entrepreneurs, who destroy the existing market equilibrium with their innovations. This mechanism has been taken into economic discourse and is termed as creative destruction. It has broadened the scope of entrepreneurship since it includes the individual businessman alongwith the directors and managers of the company. It is considered narrow in senses that individuals operates successful business enterprise, but lacks innovation. His innovating entrepreneur represents the enterprise with R&D and innovative character. But developing countries lack these type entrepreneurs. Joseph Schumpeter's innovation theory of entrepreneurship (1949) holds an entrepreneur as one having three major characteristics: innovation, foresight, and creativity. Schumpeter's innovation theory however

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ignores the entrepreneur's risk taking ability and organizational skills, and place undue importance on innovation. This theory applies to large-scale businesses, but economic conditions force small entrepreneurs to imitate rather than innovate. Other economists have added a dimension to imitating and adapting to innovation.

David McClelland

Specifically, achievement motivation is defined as a non-conscious concern for achieving excellence through individual efforts. Such individuals set challenging goals for themselves, assume personal responsibility for goal accomplishment, are highly persistent in the pursuit of these goals, take calculated risks to achieve the goals, and actively collect and use information for purposes of feedback. High achievement motivated managers are also strongly inclined to be personally involved in performing their organizational tasks. However, they may also be reluctant to delegate authority and responsibility. Thus, high achievement motivation may be expected to result in poor performance of high-level executives in large organizations. High achievement motivation is predicted to contribute to effective entrepreneurship and effective leadership of small task-oriented groups. Achievement motivation is positively related to the leadership of small task-oriented groups and small entrepreneurial firms and negatively related to the effectiveness of high-level managers in complex organizations or in political situations. Originally, the need for achievement was the greatest concern for McClelland. He was particularly interested in this need and associated behaviours because most organizations want their employees to achieve. The 'need achievement' refers to an unconscious disposition to energize and drive. High n-ach individuals are constantly 'competing with standards of excellence'. The high achievement person is 'achievement motivated' and therefore seeks achievement, attainment of realistic but challenging goals, and advancement in the job. There is a strong need for feedback as to achievement and progress, and a need for a sense of accomplishment. People with a high need for achievement seek to excel and thus tend to avoid both low-risk and high-risk situations. Achievers avoid low-risk situations because the easily attained success is not a genuine achievement. In high-risk projects, achievers see the outcome as one of the chance rather than one's own effort. High achievement individuals prefer work that has a moderate probability of success, ideally a 50% chance. They prefer either to work alone or with other high achievers.

Robert Le Vine

Individual attributes affect discovery of entrepreneurial opportunity. It is made up of psychological and demographic factors such as motives, attitude to risk, education and training, career experience, age and social status. Changes in business environment such as economic, financial, political, legal, and socio-cultural factors also affect discovery of opportunity.

E.E. Hagen's Theory

The theory of social change was propounded by E.E. Hagen. He observed that entrepreneurial development is based on how a traditional society in which continuing technical progress takes place. Hagen stressed on the prime importance of creative personality for the change from traditional society to a society within modern industrial economy. He distinguishes between the creative personality and the uncreative personality. He associates the unrealistic personality with the traditional society as to appears to explained a great deal about its complexities, which is otherwise not possible. He is of the view that all societies once upon a time were traditional and continue to remain so because of the traditional authoritarian child rearing practices leading to uncreative personality. Some societies have changed into ones with modern economies and other have remained to be traditional. These creative personality in order to restore their status position, long being the cause of anxiety of the group, channelize their energies mainly to activities from which the elites keep away. In the traditional societies the elites keep away from the economic activities, considering them to be mundane.

How a traditional society becomes one in which continuing technical progress takes place. The theory exhorts certain elements which presume the entrepreneur's creativity as the key element of social transformation and economic growth. Reveals general model of the social-inter-relationship among physical environment, social structure, personality and culture. Thinks economic theories are inadequate. Political and social change-catalyst for entrepreneurs. Rejects follower's syndrome imitating western technology. Technology is an integral part of socio-cultural complex. Historic shift as a factor initiates change.

Thomas Cochran Theory

The theory of entrepreneurship supply was propounded by Thomas Cochran. The theory is based on the assumption that the fundamental problems of Economic Development are non-economic. He emphasized on the cultural values role expectations and social sanctions as the key elements that determine the supply of entrepreneurs.

F.W. Young

Frank Young in his theory, a micro-sociological interpretation of entrepreneurship, points out that entrepreneurial initiative is a function of a group level pattern. Young has elaborately analyzed the shortcomings of psychogenic interpretation and suggested a casual consequence where transformation codes are developed by solidarity groups to improve their symbolic positions in their larger structure and thus become entrepreneurs'. W. Young has elaborately analyzed the shortcomings of psychogenetic interpretation of entrepreneurship and suggested a casual sequence where transformation codes redeveloped by the solidarity groups to improve their symbolic position in their larger structure and thus become entrepreneurs.