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Rural Non-Farm Sectors and Innovative Traits -A Micro Level Study

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Abstract

Entrepreneurship and innovation can be considered as virtually synonymous. Out of necessity a large number of rural poor choose non-farm sectors. They have less ability to take the risks related with the huge scale venture which could make a real effect on the rural population. There are a few, who are comparatively less poor, have chance to pursue some profitable venture. From theoretical development point of view we need to take into account that rural development theories and perspectives on innovation which have focused more on agriculture. It should also be noted that the guiding principle of rural development and innovations are urbanization, to be specific, innovations in the areas of industries and service sector activities are considered important. In this regard some similarities could be drawn between entrepreneurial and innovation theories. They too focus on urban entrepreneurship and innovation from urban entrepreneurial perspectives. This paper attempts to understand the innovative traits prevailing among the rural non-farm sectors (rural entrepreneurship). In order to understand the kind of innovation prevailing among the rural non-farm sectors a micro study is made in two taluks, namely Devanahalli and Doddaballapura taluks of Bangalore Rural district. Data for the study are collected from 20 rural entrepreneurs and analyzed using simple analytical tools. The paper concludes that innovativeness prevailing among rural non-farm sectors is fundamentally different from the ideal picture of innovation. As per observation in the field survey it found that innovation for rural non-farm sectors are grounded on a number of aspects such as urban connectivity, investment capacity of entrepreneurs, customers' demand, socio-economic background of entrepreneurs and customers and infrastructure like storage and transportation. Basic intention of rural non-farm sector is to survive. If we ready to accept all those activities they take to survive as innovation then we can safely conclude that there are plenty of innovative practices. If we confine our definition of innovation to the ideal kind we can hardly find any innovative rural entrepreneurs.

Keywords: Entrepreneurs, Entrepreneurship, Innovation, Innovative Traits, Rural Non-farm Sectors

Introduction

Rural India is undergoing extensive transformation at surficial level. In spite of fast-tracking economic growth, the structural transformation of the Indian economy has been slow. Labor productivity is drastically different in farming and non-farm sectors. Agricultural growth has not responded to the accelerating income growth and agricultural employment is growing slowly. Contribution of agriculture to GDP has definitely come down but people depending on rural sector have not come down. It is the rural non-farm sector that has emerged as the major source of rural economy and employment growth. There are number of factors responsible for this shift from agriculture to non-agricultural sectors. Factors such as the proportion of small and marginal farmers and landless labourers, unemployment and underemployment, absence of technological breakthrough, little or no diversification of cropping pattern in favour of commercial crops and frequent droughts, declining employment in agriculture and urban manufacturing sector made a greater proportion of rural workers to move away from agriculture towards non-farm sector activities. Generally the non-farm sectors in rural areas could be in the form of petty shops, small hotels, provision stores, vegetable and fruit sellers, street vendors, bakery shops, bangle stores, small stationery shops, cloth centres, sandal shops etc., and these non-farm sectors (rural entrepreneurship) has several traits like risk taking, achievement spirit, innovation, self-confidence, locus of

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control and so on. Innovation is one of the important traits of entrepreneurship. However there is a relationship between non-farm sectors and innovation trait of entrepreneurship. For the purpose of survival innovative practices in non-farm sectors are essential for rural entrepreneurs. Several studies, reports, survey reports, have looked at the growth and structure of Non -Farm Sector (NFS) across various regions and factors determining the variations in NFS across the various regions. However, there are not many studies, which analyze the types, characteristics and factors contributing to growth of rural non-farm sectors with innovative traits at micro level.

Besides in the existing the little studies on innovative entrepreneurs we could identify the following gaps. First, most of the entrepreneurial theories are constructed based on the experiences of the western societies. Besides they focused on urban entrepreneurship and there are few studies on innovation in rural entrepreneurs. Second, it is argued further that the new economic policies could produce adverse impact on unorganized non- farm sector in rural and urban areas. Third, not as much of studies on analysing innovative traits among rural non-farm sectors. In this context it is interesting to know the factors that contribute to the emergence of different activities and also to analyse further innovative traits found among the non-farm sectors that come to enter to this segment due to compulsion.

Objectives of the Study

This study makes an attempt to understand the innovative traits prevailing among the rural non-farm sectors. The objectives of study are -

1. To describe the ideal picture of innovation
2. To compare the ideal picture with the innovative traits in rural non-farm sectors
2. To explain the similarity or difference between the ideal and the real innovative traits in rural non-farm sectors in study areas.

Method of Study

In order to answer the above research objectives data collected both from primary and secondary sources. The main primary source of information is the rural entrepreneurs. Entrepreneurs from developed taluks are considered. Using simple random sampling techniques two taluks were selected for study. 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 and two, Human Development Report, 2014. 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. According to these reports, Devanahalli taluk and Doddaballapura taluk of Bangalore district are considered as developed taluks. In second stage of sampling, five groups' villages were selected from each taluks based on the degree of non-farm activities in the villages and also based on their nearness to the urban centers. One group of villages are nearer to taluk and another group of villages are 10 kms away from town were selected randomly. Altogether 20 rural entrepreneurs were interviewed from 10 each groups of villages. Collected data were processed using percentage method. Details of the paper are presented in the following format.

In the first part I have given a brief idea of ideal entrepreneur and the innovation practices which development policies depict and also students come across. In the latter part I have presented the data which I have gathered from the field. In the last part I have concluded the paper with some suggestions on innovative traits and rural non-farm sectors.

Operational Definitions:

For the purpose of the present study operational definitions are considered as follows:

Entrepreneurs: An entrepreneur is a person who either creates new combinations of production factors such as new methods of production, new products, new markets, finds new sources of supply and new organizational forms or as a person who is willing to take risks or a person who by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand or as one who owns and operates a business.

Non-farm Sectors (Rural Entrepreneurship): sectors or entrepreneurship emerging at village level which can take place in a variety of fields of Endeavour such as business, manufacturing sectors, any commercial activities and acts as a potent factor for economic development.

Innovative Practices and Innovative Traits: For the purpose of the study innovative practices and innovative traits of rural entrepreneurs are taken in following manner. Innovation in marketing and advertising could be good method of displaying products, arrangement of Products in systematic order, displaying pamphlets or advertisement outside the shop, good network with the customers, explaining about new product to customer when products are newly arrived, and discount offer for few products etc. Innovation in technology could be new method of weighing machine, installation of refrigerator for cooling purpose, new coin telephone machine, different shades of painting for photo studio. Innovation in finance could be, based on social network seeking amount with friends and relatives without interest, getting funds through Self Help Group (SHG). Innovation in product may display of variety of products in systematic order, mouth to mouth interaction with customer, special arrangements of products during time of fair or special occasion, introduction of new products according to customer's' demand/need.

Ideal Entrepreneur and Innovation

Innovation is the crux of entrepreneurial trait. Innovation catalysis entrepreneurship by providing ideas that can be transformed into wealth (through goods and services). Innovative trait supports to identify and develop market opportunities for entrepreneurship. Innovations are not limited to those relating high-end technology alone. Any new idea that generates commercial value is by itself the spur for a new entrepreneur to plan a venture. To quote the economist, T. N. Srinivasan, "Innovation and Entrepreneurship is a two-way relationship. In one sense, in innovation, someone finds something but that somebody may not be equipped to translate that something into a commercial proposition. That is where Entrepreneurship comes in".¹ Creation of wealth from knowledge and generates impetus for further innovation are an entrepreneurial culture. Entrepreneurial environment is sustained by a vibrant academic culture with innovation linking the two as a generator of new ideas and

opportunities. The entrepreneur is attentive to variations in technology that generate profit opportunities. Entrepreneurial alertness is required to confirm that new methods of production will be familiarised. Jenks declared. “The innovator is a person whose traits are in some part a function of his sociocultural environment. His innovation is a new combination of factors and elements already accessible”.² Cromie identified innovation with the following things – “ability to recognize and realize new opportunities, look beyond conventional procedures, combine existing ideas and resources in different ways and obtain experience through experimentation and trial and error”³ Also, an entrepreneur is someone who considers in non-conventional ways, challenges existing assumptions, and is flexible and adaptive concerning problem solving. Joseph Schumpeter gave different dimensions of innovation. According to Schumpeter “introducing a new good or a new method of production, finding a new market or discovering a new source of supply, or identifying a new organization of an industry are different forms of innovation. Innovator upsets the conventional way of doing things. When successful, he elicits widespread imitation”⁴ Schumpeter delivers in-depth explanations of the entrepreneur’s role as a leader within the economic system. Accordingly the entrepreneur is “continually organizing the economic system” by developing new processes and a new marketing environment; as such Schumpeter defines entrepreneurship as a process of “creative destruction”. According to Schumpeter, “radical improvements and the frequent changes to products and services by entrepreneurs make old technology quickly obsolete. Through the principles of ‘creative destruction’ by entrepreneurs, different economic sectors are most likely to be developed. Entrepreneurship causes economic growth by allowing the means of production in a society to be used in newer and more efficient combinations. Schumpeter thus claims that it is entrepreneurship (not merely knowledge) which causes technological innovation”⁵

There are many researches exploring the role of innovation in entrepreneurial activities. Some say that innovation beats invention and ideas. Innovation is an act by the individual to commercialize inventions to achieve possible values. Corporate entrepreneurship is about creativity; the significance of innovation as a critical tool of both the entrepreneur and entrepreneurship cannot be ignored.⁶ Zhao, expressed, “entrepreneurs use innovative means to exploit every change regarding business opportunities. Innovation assumes the willingness and the interest by entrepreneurs to do things differently”⁷ Some other research observes that entrepreneurship plays a essential role in economic development because it permits economists to carry out valuation not only on innovative techniques and knowledge but also fast-track the procedures of innovation as well as to establish multiplicity of knowledge which offers knock-on effect on individuals.⁸ In addition, researchers are of the opinion that through entrepreneurship, high-imports of technological applications have massive spin-off effects on domestic innovation and therefore trigger productivity and development. Innovative entrepreneur facilitates economic growth, creates new business ventures, restructures existing business entrepreneurial activity and absorbs large amount of surplus resources in terms of humans and finances.⁹ According Kirzner, “the innovative skills of the

entrepreneur emerge from the locality of the entrepreneur with the conditions that exist in the economy as the leading progression in the form of incremental, experimental and evolutionary” (Vaughan).¹⁰ In brief innovative entrepreneur stands at the core of new business creation and capitalizes intellectual and other assets to generate potential wealth through unique opportunities and innovative processes. National Knowledge Commission (NKC) conducted a survey in 2006- 07 on innovation in large firms and Small and Medium Enterprises (SMEs) across the country. According to its report, “innovation intensity, that is, the percentage of revenue derived from products or services which are less than three years old, has increased for large firms as well as SMEs in India. The strategic prioritization of innovation has also intensified since economic liberalization. Moreover, an interesting finding is that SMEs register a greater increase in ‘Innovation Intensity’ than large firms. This could also indicate that smaller, decentralized, creative and experimentation-oriented organizations could be the torch-bearers of large-scale ‘disruptive innovation’ in the country.”¹¹

According to the National Knowledge Commission (NKC) survey “the most important external barrier to innovation for large firms and SMEs continues to be skills-shortages, arising out of lack of emphasis on creativity, problem solving, design and experimentation etc. in the education curricula.’ As such the report noted that ‘it is critical to focus on policy reform in the higher and vocational educational curricula in order for India to achieve its innovation potential. In order to fully realize India’s potential for innovation – from grassroots to the large firms – certain key actions such as reforms in higher education, investment in research and building formal and informal academia-industry linkages have become imperative.”¹² With the above review on innovation and entrepreneurship, now we can discuss the present study.

Data from the Field

Table 1 presents distribution of rural nonfarm activities in the selected areas. The table clearly reveals that various rural nonfarm activities consist of manufacturing, construction activities, retail business and service sector. The same table reveals that in Devanahalli taluk, retail business is more in numbers and service sector presents 20 percent and nobody engaged in manufacturing and construction activities in village group -1 and in village group -2, again retail business found highest percentage, manufacturing at 40 percentage and in construction and service sectors nobody engaged. In Doddaballapura taluk also retail business dominated by high percentage, 20 percent in manufacturing and service sector respectively and nil percentage in construction in village group-1 and village group-2 again retail business dominated, remaining 40 percentage occupied by manufacturing and nobody engaged in construction and service. The data reveals the maximum number rural entrepreneurs are engaged in retail business in both the taluks.

Table-1: Percentage of Distribution of RNFS among Rural Non-farm Sectors

RNFS	Devanahalli taluk		Doddaballapura taluk	
	VG-1	VG-2	VG-1	VG-2
Manufacturing	0	40	20	40

Construction	0	0	0	0
Retail Business	80	60	60	60
Service	20	0	20	0
Total	100	100	100	100

Note:

1. VG-1 = Village group-1, which is nearer to the town (Taluk)
2. VG-2 = Village group-2, which is 10 KMS, away from town (Taluk)

RNFS = Rural Non Form Sector.

Source: Researcher’s Field Work

Table-2, to understand innovative factors among rural entrepreneurs in selected area, in Devanahalli taluk, it was found that 40 percent of rural entrepreneurs will go for innovative ideas in technology, marketing and finance in village group-1 and 30 percentage each in product and advertising innovative factors, in same village group, 60

percent rural entrepreneurs will not willing to go for innovative factors in technology, finance and marketing, maximum 70 percent rural entrepreneurs expressed not willing to go for innovative factors in product and advertising respectively. In same taluk, in village group-1 presents 100 percent rural entrepreneurs are willing to go for innovative factors in all aspects. In Doddaballapura taluk, in village group-1, 60 percent of rural entrepreneurs will go for innovative factors in technology, marketing, product and advertising respectively and in finance only 40 percent rural entrepreneurs will go for innovative factors. In same village group, 40 percent of rural entrepreneurs will not go for innovative factors in technology, marketing, product and advertising respectively and 60 percent rural entrepreneurs will not go for innovative factors in finance. In same taluk, in village group-2, 60 percent rural selected entrepreneurs will go for innovative factors in all aspects and 40 percent selected rural entrepreneurs will not go for innovative factors in all aspects.

Table-2: Percentage of Innovative Factors and Traits among Sample RNFS

Innovative Factors and Traits	Devanahalli taluk				Doddaballapura taluk			
	VG-1		VG-2		VG-1		VG-2	
	W.G	W.N.G	W.G	W.N.G	W.G	W.N.G	W.G	W.N.G
1.Technology	40	60	100	0	60	40	60	40
2.Finance	40	60	100	0	40	60	60	40
3.Marketing	40	60	100	0	60	40	60	40
4.Product	30	70	100	0	60	40	60	40
5.Advertising	30	70	100	0	60	40	60	40

Note

1. VG-1 = Village group-1, which is nearer to the town (Taluk)
2. VG-2 = Village group-2, which is 10 KMS, away from town (Taluk)
3. W.G = Rural entrepreneurs will go for Innovative factor
4. W.N.G= Rural entrepreneurs will not go for Innovative factor.

Source: Researcher’s Field Work

Table -3 presents profitability of innovativeness among rural entrepreneurs in selected areas. The study was done on the basis of before introduction innovative factors, after introduction of innovative factors and no effects from innovative factors in both the taluks. In Devanahalli taluk,

in village group 1 and 2 it was found that before introduction of innovativeness 0 percent results on business, 20 percent profitability after the introduction of innovativeness and remaining 80 percent no effects on business in village group-1 and in village group -2, 80 percent rural entrepreneurs expressed profitability increased after introduction of innovativeness and 20 percent rural entrepreneurs said no effects from innovativeness. In Doddaballapura taluk, in village group -1 and 2, it was found that 40 percent rural entrepreneurs said effects was found after introduction of innovation and 60 percent rural entrepreneurs found no effects from innovation

Table-3: Percentage of profitability of Innovativeness among Sample RNFS

Area		Before Introduction of Innovation	After Introduction Of Innovation	No Effects
Devanahalli	VG-1	0	20	80
	VG-2	0	80	20
Doddaballapur	VG-1	0	40	60
	VG-2	0	40	60

Conclusion

The existing literature on innovation and entrepreneurship focus more on innovation through entrepreneurship. The new or alternative body of knowledge on innovation and entrepreneur claims that entrepreneurs who have much potential for poverty alleviation are those who innovate and seek out new opportunities. However for this category to succeed in manufacturing or in other activities at the micro level need support from microfinance. The empirical evidences presented in the above tables show that the group of villages which are nearer to towns do not give much priority to innovative practices. The main reason for shying away from innovation is that people prefer to buy goods

and services from nearer towns rather than from the local units. In other words the units nearer towns need to compete with the units of nearer towns in innovation. The innovation bar to jump is so high that they never take the risk of jumping at all. In the case of group of villages which are away from towns we could identify some innovative traits among non-farm sectors. The reason is obvious innovation is remunerative here. Local people prefer to buy goods and services in their villages. In order to attract these local customers entrepreneurs put into practice their own rudimentary innovative ideas. But it is also true that the profitability of rural non-farm sectors is not exclusively depending on innovation.

It is necessary to inform that innovations by rural non-farm sectors are not in huge magnitude. We have already seen in the definition and indicators of innovation the things or activities which are considered as innovative acts. They are all not earth shaking inventions. On the other hand they are all very simple things which help an entrepreneur to differentiate his or her business practices from the business practices of another entrepreneur who is operating in her immediate vicinity. In strictest sense these new ways cannot be branded as innovation. Most of them are imitations. It means the things which we have included in the list of innovation are being done by urban entrepreneurs or by entrepreneurs in other settings. So in a village setting using an electronic weighing machine or using cutting and packaging machine or new machinery for production becomes technological innovation for the simple reason that neighbouring entrepreneurs do not use these machines. Similarly if entrepreneur depends less on traditional sources of finance such as loan from co-operative societies or from schedule banks and more on sources such as Self-Help Groups (SHG), pigmy savings, chit funds and money rotation schemes it is considered as innovation in finance. Searching for new product according to customer requirement, searching new markets in nearby villages, explaining, exhibiting new product to customers, offering varieties of products and special products, offering discount, credit facility, developing decent service and network, sustaining clean surroundings, good communication with customers and related other factors were considered as innovation the areas of marketing and advertisement.

From the above paragraph it is clear that small things which are done by rural non-farm sectors to compete with their counterparts and earn more profit are considered as innovation. Now the question we face can we, based on these small innovative acts, conclude that innovation is an important trait among non-farm sectors. If we stick to the essential meaning of innovation, that is, idea of something new and converting that new idea into a business opportunity is the essence of innovation, the rural non-farm sectors too have innovative traits. It is not the magnitude of thing but it is the newness of the thing that actually attaches the value of innovation. In this sense rural non-farm sectors are also innovators. Rural on-farm sectors might have taken up entrepreneurial activities either as a survival strategy or as source of supplementing their income or as a route to accumulate wealth. Whatever may be the original motive once they are in the business field in order to survive and excel they need to innovate. If they fail to tread a path that is not taken by others or to innovate they may fail.

The innovativeness in rural non-farm sectors are not exclusively based on nearness to town it is also based on other factors such as urban connectivity, investment capacity of entrepreneurs, customer's demand, socio-economic background of entrepreneurs and infrastructure like storage, transportation. The established theories of innovation and entrepreneurship theories emphasize more on urban entrepreneurs and they focus more on innovation as the main feature of entrepreneurs. But due to lack of studies on rural entrepreneurs, mainly on innovation among rural entrepreneurs, it is difficult to analyze innovation as the main and must characteristic of rural non-farm sectors. Normally rural people enter into non- agricultural (non-farm) activities out of necessity. As per the observation in

the field survey it was found that rural entrepreneurs start their businesses with their own financial resource, human resource and with small infrastructure. Basic intention of establishment of nonfarm activities in rural is to earn livelihood. It is a question of life and death for them. Therefore innovation which we see in the text books or the ideal kind of innovation is a mirage in rural entrepreneurs. However if we are ready to expand the meaning of term innovation so as to take into account all those things which the people do to survive then we can safely infer that there are plenty of innovation at the grassroots. We are forced to redefine innovation because Rural Non-Farm Sector (RNFS) is contributing almost half of the Gross Domestic Product (GDP).

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