

# “INNOVATIVE PRACTICES AND RURAL NON-FARM SECTORS - AN EMPIRICAL 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 entrepreneurship. They have less ability to take the risks related to the huge scale venture which could make a real effect on the rural population. There are a few, who are comparatively less poor, who have a chance to pursue some profitable venture. From a 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 practices prevailing among the rural entrepreneurs. In order to understand the kind of innovation prevailing among the rural entrepreneurs, a small study is made in two taluks, namely Devanahalli and Doddaballapura taluks of Bangalore Rural district. Data for the study was collected from 20 rural entrepreneurs and analyzed using simple analytical tools. The paper concludes that innovativeness prevailing among rural entrepreneurs is fundamentally different from the ideal picture of innovation. As per observation in the field survey, it is found that innovation for rural entrepreneurs is grounded on a number of aspects such as urban connectivity, investment capacity of entrepreneurs, customers' demand, socio-economic background of entrepreneurs and infrastructure like storage and transportation. The basic intention of rural entrepreneurs in non- farm sector is to survive. If we are 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:** *Entrepreneurship, innovation, innovative practices, rural entrepreneur.*

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## **Introduction**

There is a steady increase in the process of urbanization. In spite of this process still, a large number of people live in villages. Out of

the country's total population, 69 percent still live in villages. Village truly represents our cultural heritage. In the process of economic development, as elsewhere, the structure of rural employment has undergone several



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changes. One important change is occupational diversification from agriculture to rural non-farm activities (RNFAs). A number of factors are responsible for this shift. Factors such as growing labour force, declining average size of landholdings, 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. Non-farm sectors in rural areas could be petty shops, small hotels, provision stores, vegetable and fruit sellers, street vendors, bakery shops, bangle stores, small stationery shops, cloth centres, sandal shops etc., These non-farm sectors (rural entrepreneurship) has several traits like risk taking, achievement spirit, innovation, self-confidence, locus of control and so on. There is a relationship between rural entrepreneurship and innovation trait of entrepreneurship. For the survival of non-farm sectors innovative practices are essential. 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 innovative rural entrepreneurs at micro level.

Besides in the existing the little studies on innovative entrepreneurs we could identify the following gaps. First, theories on rural development and innovation practices and policies have focused more on agriculture. Reasons for such focus on agriculture could be one, the countryside deprived are landless and two illiteracy, hence it is assumed that poor are doubtful to get benefit directly from such type of farm based business. In the meantime it is also true that large numbers of poor are entrepreneurs. They run micro enterprises or petty business. They operate them with meagre

resources. These enterprises bring them survival levels income both in farm and non-farm segments. Second, 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. Third, it is argued further that the new economic policies could produce adverse impact on unorganized non-farm sector in rural and urban areas. In this context it is interesting to know the factors that contribute to the emergence of different activities and also to analyze further innovative practices found among the rural entrepreneurs who come to enter to this segment due to compulsion.

### **Objectives of the Study**

This study makes an attempt to understand the innovative practices prevailing among the rural entrepreneurs. The objectives of study are -

1. To describe the ideal picture of innovation
2. To compare the ideal picture with the innovative practices of the rural entrepreneurs (non-farm sectors)
3. To explain the similarity or difference between the ideal and the real innovative practices of rural entrepreneurs 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 were 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 SPSS. Details of the paper are presented in the following format. In the first part there is a brief idea of ideal entrepreneur and the innovation practices which development policies depict and also students come across. In the latter part, data has been presented which was gathered from the field. In the last part, the conclusion of the paper with some suggestions on innovation and rural entrepreneurs have been presented.

### **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.

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

### **Ideal Entrepreneur and Innovation**

Innovation is the crux of entrepreneurship. Innovation catalysis entrepreneurship by providing ideas that can be transformed into wealth (through goods and services). Innovation 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".<sup>1</sup> Creation of wealth from knowledge and generate 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 familiarized. 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". 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" 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". 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".

There is much research 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. 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". Some other research observes that entrepreneurship plays an 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. 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 a large amount of surplus resources in terms of humans and finances. According to 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). In brief innovative entrepreneur stands at the center 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.”

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.”

The ideal entrepreneurial theories and studies showcase that out of necessity rural entrepreneurs choose non-farm activities and innovation is not the primary factor. With a few innovative practices, rural entrepreneurs pursue the business. With the above review on innovation and entrepreneurship, now we can discuss the present study.

#### **Data from the Field**

Table 1 presents the 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 Entrepreneurs**

RNFS	Devanahalli		Doddaballapur	
	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 helps us 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 be 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 the 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 the 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 Among Sample RNFS**

Innovative Factors	Devanahalli				Doddaballapur			
	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 of innovative factors, after the 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 in 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**  
**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

Source: Researcher's Field Work

### Conclusion

The existing literature on innovation and entrepreneurship focus more on innovation through entrepreneurship. It also assumes that this process is beneficial to the poor. However, later on, we could see changes in the development of rural perspectives which stimulated away from small-holder agriculture and farms as the main beneficiaries of anti-poverty fighting measures. Besides

the changed perspectives claimed that voluminous poor are not farmers and do not even essentially desire to become a micro entrepreneur. This 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 a group of villages which are away from towns, we could identify some innovative practices. 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 entrepreneurs is not exclusively depending on innovation.

It is necessary to inform that innovations by rural entrepreneurs are not of 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 the 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 neighboring entrepreneurs do not use these machines. Similarly, if entrepreneur depends less on traditional sources of finance such as a 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 entrepreneurs to compete with their counterparts and earn more profit are considered as innovation. Now the question we face can be, based on these small innovative acts, conclude that innovation is an important trait of the rural entrepreneur. If we stick to the essential meaning of innovation, that is, an idea of something new and converting that new idea into a business opportunity is the essence of innovation, the



rural entrepreneurs 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 entrepreneurs are also innovators. Rural entrepreneurs might have taken up entrepreneurial activities either as a survival strategy or as a source of supplementing their income or as a route to accumulating 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 entrepreneurs 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 entrepreneurs. Normally rural people enter into non-agricultural 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. The basic intention of an establishment of nonfarm activities in rural area is to earn a 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 the 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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