

# An Investigation of the Entrepreneurial Behaviour in Rural Sector in Sri Lanka – A Case Study

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## **Abstract:**

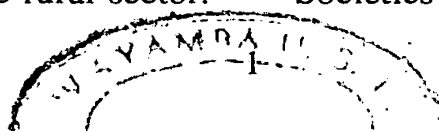
Rural sector is an important national priority. Income generation is a key to develop the quality of life of the rural community. Therefore, the utilization of entrepreneurship in rural sector can be useful to provide the income and this entrepreneurship category mainly belongs to the micro-level. Therefore, the study was aimed at investigating the behaviour of such entrepreneurs' operating in randomly selected ten Grama Niladhari Divisions of a rural Divisional Secretary Division of Sri Lanka. The sample of the study included two categories of micro-entrepreneurs and the basis was the utilization of micro-credit as their financing mode. The primary data were used and analyzed qualitatively. The analysis revealed that the rural micro-entrepreneurs are facing common problems irrespective of the financing mode of their businesses. Therefore, the study emphasizes the importance of developing an entrepreneurial culture within them in order to form a dynamic engine for the rural sector development.

**Key words:** Entrepreneurial Culture, Micro-entrepreneurs, Micro-credit, Rural Sector

## **1. Introduction**

In spite of industrialization and urbanization, the developing world is still predominantly rural. According to Todaro (1994), in the third world, more than eighty percent of the population lives in the rural sector and engaged primarily in agriculture and self employed small-scale businesses. Even though the situation in a country like Sri Lanka is slightly better, the gravity of the issue is very significant. At the same time, this rural sector economy is suffering from lack of better employment opportunities for youth, good food, drinking water, shelter, income to live, start up or working capital for businesses, good price for harvest and sustainability. The poverty is the hindering factor in the development process of the rural sector.

Therefore, a healthy economic growth should be needed to eradicate this poverty. The social expenditures and labour intensive technologies that are specially directed towards the poor people is a winning combination in the fight against this poverty. With the understanding of the gravity of this issue and for addressing the lack of capital for promoting agriculture & enterprises and for up-lifting the social capital of the rural sector, the government, formal financial institutions i.e. state or privately owned commercial banking system, non-governmental organizations (NGOs), donor agencies, etc. are playing a major role. In Sri Lankan context, Janasaviya & Samurdhi programmes, Janashakthi Banking Societies in Hambantota, Thrift and



Credit Co-operative Societies (Sanasa), Gemi Pubuduwa Scheme of Hatton National Bank and some other commercial banks provide micro-credit facilities as to fulfill financial needs of the rural poor to improve their harvest or their businesses concerned. At the same time along with the credit facility, those programmes have the objectives of providing a wide variety of enterprise services like skills development training, advisory & counseling services, technical advice and market guidance. Thereby, allow their customers to create new employment opportunities, to be more self-reliant and also help the women empowerment.

As the definition of the term micro-enterprise, it is a very small business that produces goods or services for cash income, has limited access to capital, has a few no. of employees, and is often home-based. Small cooperative societies can also be micro-enterprises. From Sri Lankan Statistics, the white paper on National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka (2002, p. 18) has identified the no. of persons engaged in micro businesses from 1992 to 1997 and is shown in the table 01. According to figures of that table, by 1997 the importance of micro-enterprises has increased significantly.

*Table 01: No. of Persons Engaged in Micro-enterprises from 1992 to 1997*

	1992	1993	1996	1997
No. of persons	2,911	3,002	46,995	48,225

Since the wider recognition and the increased involvement in this entrepreneurial category in the rural sector, an investigation should be

needed to see “whether those entrepreneurs are contributing towards the development of the rural sector as intended by any programme or any institutional body?” Further, in Sri Lankan context, even though there are a plenty of studies through household surveys, a very few number of studies have been carried out through entrepreneurial surveys. An example for such a study is a study by S.S Colombage and Alia Ahmad from year 2003 to 2005. This had been carried out as an impact assessment survey of Micro-finance in Hambantota and Monaragala Districts with a special consideration of how micro-enterprises could be developed through micro-finance.

As a result, to fill the gap in the studies at entrepreneurial level in the rural sector, the present study was carried out with an objective;

- to investigate the entrepreneurial behaviour in the rural sector

The findings of this study help to identify how to address the problems that the micro-entrepreneurs are encountering in income generating process of the rural sector and the strategies to develop them through a mechanism (programme or otherwise) which are specially directed towards them. At the same time, the researcher of the present study believes that the findings of this research will influence similar studies to be undertaken in this and related fields. They can take into account some of the constraints of the present study and design them so as to ensure greater depth and coverage.

## 2. Methodology

The study was mainly focused to investigate the behaviour of entrepreneurs of the rural sector in Sri

Lanka as a case study. Therefore, there is no establishment of correlational relationships among variables. Hence, the study was explanatory in nature. For this study, data were collected at a single point and the time horizon was cross sectional. The study was carried out at micro-enterprise level in ten randomly selected Grama Niladhari Divisions in Kuliypitiya-West D. S. Division in Kurunegala District in which events occur naturally. Therefore, the study setting was non-contrived.

Further, as the study was to investigate the behaviour of the entrepreneurs of the rural sector, the sample was subdivided into “experimental” and “control” groups of respondents with the base of the involvement in micro-credit (i.e. the entrepreneurs who have obtained loans under any micro-credit programme to start a business or for their business development) and none involvement in micro-credit. As a result an equal percentage from both groups (50-50) was selected and they represent the “micro-entrepreneurs” in the Kuliypitiya-West D. S. Division.

The primary data were collected through a field survey on micro-entrepreneurs using a structured questionnaire and the data were analyzed qualitatively using tabular and graphical methods.

### 3. Results

The primary data were collected from the sample which consisted of two groups. i.e client entrepreneurs (persons who have taken a micro-credit support to start a business or for their existing business development) and the non client entrepreneurs (persons who have not taken such a support).

The behaviour of both groups was analyzed using cross-tabular forms and graphically.

The table 02 shows the gender of micro-entrepreneurs of the sample.

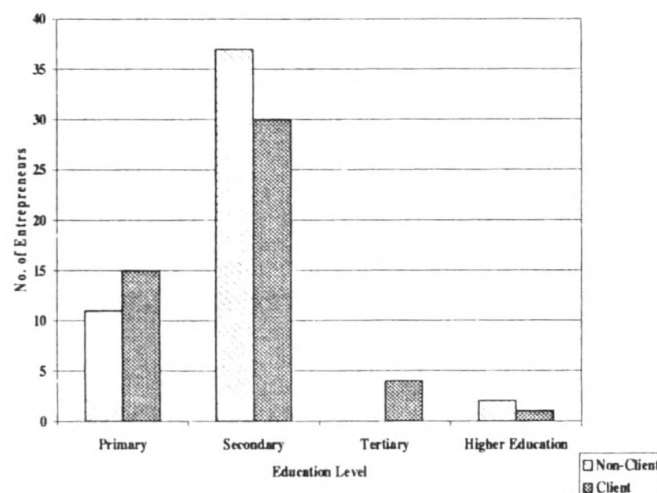
*Table 02: Gender of Micro-entrepreneurs*

Status	Gender		Total
	Male	Female	
Non-client	38	12	50
Client	44	6	50
<b>Total</b>	<b>82</b>	<b>18</b>	<b>100</b>

According to the figures given in the table 01, the sample consisted only of 18 women entrepreneurs and among them, only 33 percent were the client entrepreneurs. However, the male participation in micro level businesses was higher than the female participation and among them 54 percent were client entrepreneurs.

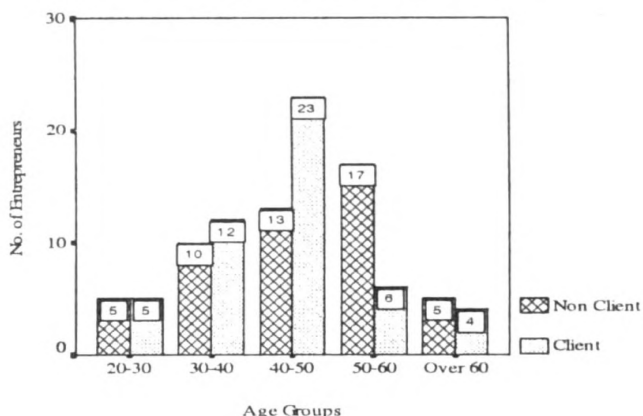
The information of the education level among the entrepreneurs is given in the figure 01. According to the figure, 60 percent of clients and 74 percent of non-clients have completed their education only up to the secondary level. There were three graduates in the sample surveyed and among them two entrepreneurs have not obtained credits for their businesses.

*Figure 01: Educational Level of Entrepreneurs*



The age groups for which client and non-client micro-entrepreneurs belonged are shown in the figure 02.

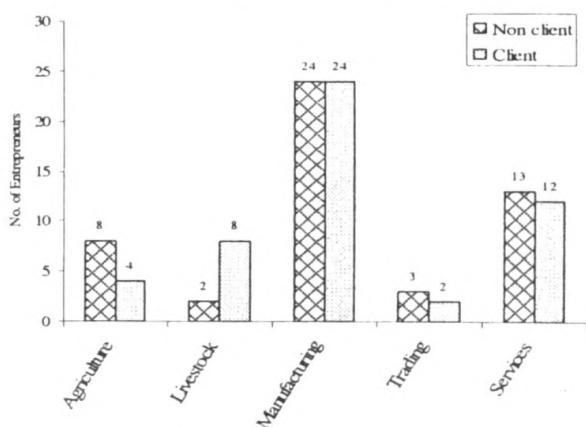
Figure 02: Age of Entrepreneurs



According to the figure 02, when the age of the sample entrepreneurs was taken into consideration, 58 percent of entrepreneurs belonged to 30 – 50 years age group. Further 23 percent of entrepreneurs belonged to the range of 50 – 60 years of age. However, 23 percent of entrepreneurs who belonged to 40 – 50 age group have requested institutional support for fulfilling their financial need.

Figure 03 shows the business category that the entrepreneurs have mostly engaged.

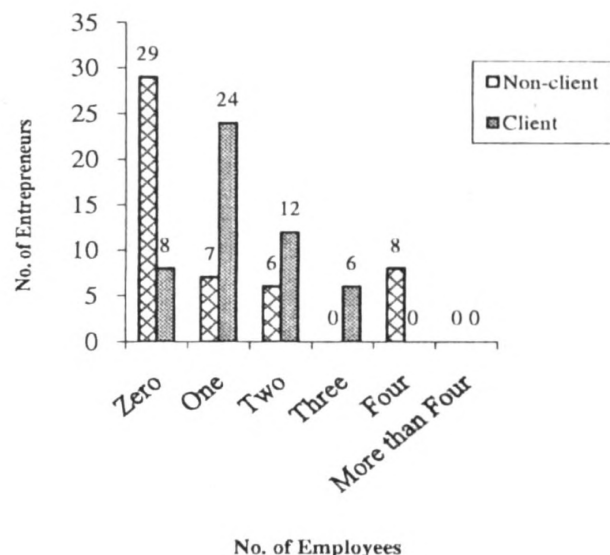
Figure 03: Business Category



According to the figure 03, an equal percentage from both groups of

entrepreneurs have engaged in manufacturing related businesses such as agro based manufacturing (mushroom, cashew nuts etc), food manufacturing (bakery products, milk products, “papadam”, etc), coir, pottery, poultry and so on. The enterprises that belonged to service sector can be ranked as the 02<sup>nd</sup> place and those entrepreneurs have mainly engaged in grinding mills, carpentry service, etc. In the agriculture category the tea, paddy, coconut and rubber cultivations have excluded and the entrepreneurs selected for this study have engaged in betel, pineapple and nursery plants as agriculture.

Figure 04: No. of Paid Employees available in Businesses

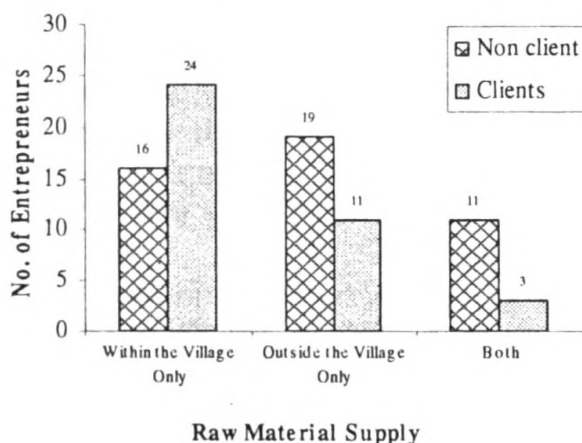


According the figure 04, there were 37 enterprises of the sample, which had zero paid employees, and of which, 78 percent were non-client enterprises. From the rest of 63 enterprises of the sample, 67 percent of client enterprises have given employment opportunities. However, among non-client enterprises, only 21 no. of enterprises have given employment opportunities. None of both groups employed more than four employees. Even though, both groups have generated employment opportunities to a certain extent, most of

the time those employees have been hired on temporary or casual basis.

The mode of raw material supply for both groups of entrepreneurs shows in the figure 05. According to that, 48 percent of the client entrepreneurs mainly depended on village raw materials as their micro-credit scheme is facilitating them to find village suppliers. However, irrespective of the grouping base, for an example; some of coir manufacturers mainly depended on village raw materials but some times they had to find required raw materials (i.e. coconut husks) from the outside of the village when there is a shortage of supply of coconut husks in the market. At the same time, this was the same for brick manufacturers. The main raw material of this business is the clay of paddy fields. The prevailing government restriction on extracting this type of clay has hindered them to find their raw materials on time. As a result, they have to resort to some illegal modes of supply at high prices to meet the market demand.

Figure 05: Mode of Raw Material Supply



Distance to the market is the most important factor to determine the business income and also for the family expenditure. Since the study area is located surrounding the Kuliyaipitiya

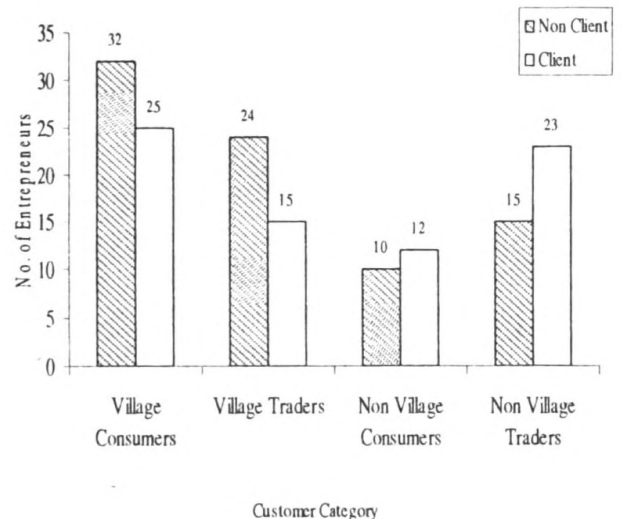
Town, the researcher selected the Kuliyaipitiya Town as the main market place for entrepreneurs of the sample. The table 03 shows the distance to Kuliyaipitiya town from the business location of entrepreneurs. According to that, minimum distance was 03 km. and the maximum was 11 km.

Table 03: Distance to the Market

Status	Distance to Market in km				Total
	3	3 - 6	6 - 9	9 - 12	
Non-client	0	19	18	13	50
Client	1	15	17	17	50
Total	1	34	35	30	100

The figure 06 shows the details of the target market of both groups of entrepreneurs.

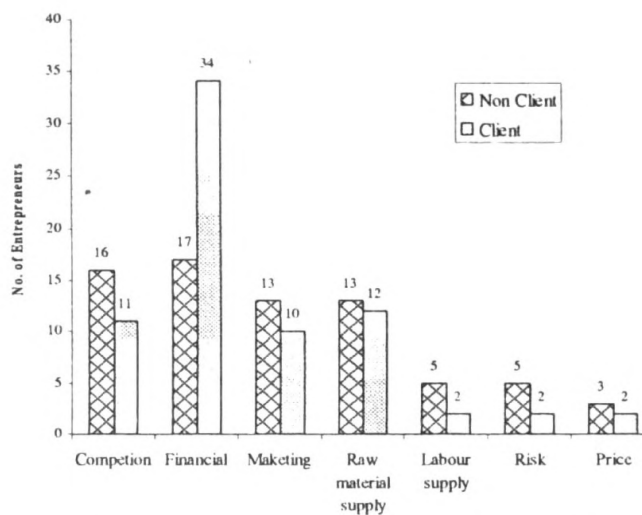
Figure 06: Target Market



According to the figure 06, among client entrepreneurs there was a trend to sell their products to non village consumers and non village traders than village consumers and traders because of the high competition prevailing within the village for the same type of product and the availability of a large no. of

substitutes within the village itself. Sometimes the competition might have occurred among client entrepreneurs as they have obtained micro-credit on group lending system. As a result most of the time, the group members were trying to engage in similar type of a business for example, processing of cashew nuts, betel cultivation, etc. During the survey it was identified that the rural entrepreneurs were engaging in their businesses in the midst of problems. The figure 07 shows some of such problems.

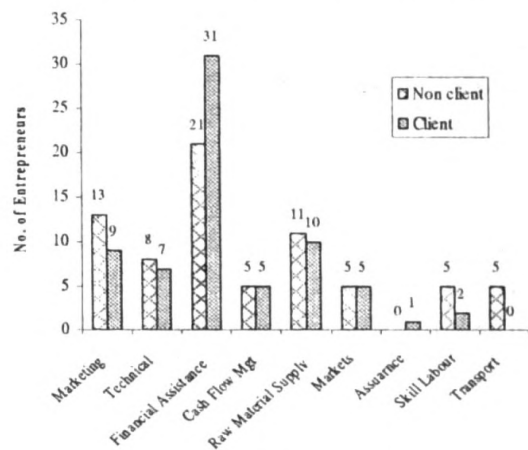
Figure 07: Business related Problems



The most common problem for both categories of entrepreneurs was finding money to meet their working capital. The problem of finding raw materials was the second priority as most of them were based on the same business types for which they need to find raw materials within village level such as coir, clay, raw cashew nuts and so on. Even though 32 percent of non-client entrepreneurs had mentioned that the competition was a problem for them, only 22 percent of client entrepreneurs were suffering from that. For the entrepreneurs who were mainly engaging in agro based manufacturing were affected by the risk factor (mainly in the betel cultivation) and the problem of not getting fair prices for their

products (for example cashew nuts). Some other manufacturers like mushroom cultivators were mainly suffering from the marketing problem. In the service sector, irrespective of the category of entrepreneurship, most of carpenters were suffering from finding skilled labourers. Based on the problems that those entrepreneurs mainly encountered, following figure 08 shows different types of assistance that they request for developing their businesses.

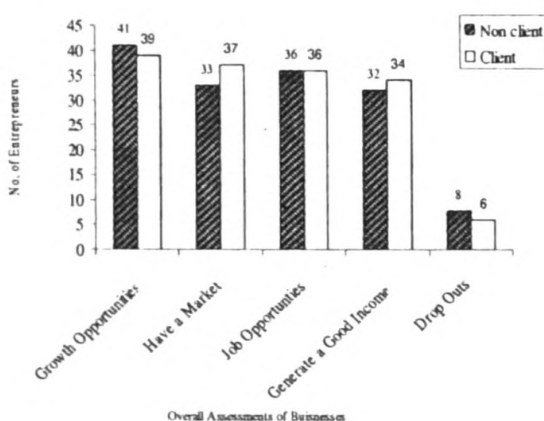
Figure 08 - Types of Assistance Required by Micro-entrepreneurs



According to the figure 08, both groups of entrepreneurs have mentioned that they need more financial assistance than what they received from formal financial institutions. At the same time, irrespective of client or non-client basis, 47 no. of entrepreneurs have highlighted the importance of developing their skills in marketing, technical and cash flow management. Further, the client entrepreneurs have mentioned that the importance of arranging markets for them by their money lenders i.e. financial institutions in order to sell their products regularly to the market and they pointed out this marketing assistance specifically since high sales will lead them to repay their loans on time.

However, the figure 09 shows the overall assessments given by each entrepreneur about his/ her current business under the criteria of Growth Opportunities, Have a market for the product, Generation of Employment Opportunities, Generation of good income, and Probability to Drop out from the business. According to that figure, 80 percent of entrepreneurs of the sample have stated that there are good opportunities to improve their current businesses in future but they need flexible financial providers with customerized packages to fulfill the financial requirements of their businesses. At the same time, 70 percent of total entrepreneurs have pointed out their inability to expand their market even though there was a good market for their products. Both groups of entrepreneurs have mentioned about the importance of improving their businesses as those businesses could generate job opportunities to the society. At the same time, some of them have mentioned about the dropouts of newcomers to their business field. According to them, some of their neighbors have obtained loans to start businesses for which their knowledge was poor. Finally, they had to be debtors of a financial institution and to suffer from the lost of their assets in repaying loans.

Figure 09 - Overall Assessment about Businesses



#### 4. Discussion

The rural entrepreneurs are often suffering from the general neglect of rural areas for examples, irregularity in transportation services, lack of good roads, narrow coverage of telecommunication services and poor electrical supply, etc. At the same time, they are suffering from a lot of business related problems as well. Among those, the major problem is lack of business development services (BDS) such as training programmes for entrepreneurial skills development, cash flow management, marketing, technology and so on. The present study has considered two groups of entrepreneurs to analyze deeply and to get a real picture of their behaviour in the market. Even though the micro-credit beneficiaries are said to be given the required BDS with their loan facility, they are continuously requesting those services from their financial service provider in order to overcome the adverse effects of dropping out from their businesses. But, so far they have not been given a favourable reply by their lenders. Instead, those institutions are continuously engaging in improving their loan recovery rates. That means most of such financial institutions have lost their main focus of making empowering effect on clients through the development of self-reliance, self confidence, self-worth and decision making powers while providing credit facilities.

Further, as some other problems of micro-entrepreneurs, the high competition and finding markets for their products are common for everybody. The reasons for the occurrence of this problem are that these entrepreneurs are;

- Not delivering their products on time to the market (Time)
- Not maintaining required quality of the products (Quality)
- Inadequacy in the quantity provided (Quantity)
- Not deciding the price of the product according to the market forces (Pricing)

Other than the above mentioned problems, those entrepreneurs are prone to carry out their traditional family businesses without making any efforts to engage in new income generating activities because they are risk averters and their exposure to the modern market trends is very low. As a result, they highly concentrate on a few business categories such as brick manufacturing, basic food processing, poultry, tailoring, carpentry works, small trading, etc.

## 5. Conclusion

In order to overcome the problems of these entrepreneurs, a proper initiation should be taken to have product diversifications in their businesses, improve innovations, training, and business development services. At the same time, these micro enterprises are lack of economies of scale as those are mostly functioning as sole proprietorships and the entrepreneur himself or herself is the only employee. For some business categories, even though entrepreneurs are willing to offer job opportunities, there are no suitable skilled labourers to be found in their village level to maintain the required quality.

By reviewing the facts and findings mentioned above, it reveals that there is a lacuna in a good entrepreneurial

culture in the rural sector. Therefore, the policy makers need to pay attention to make an entrepreneurial culture within those micro-entrepreneurs in order to make this entrepreneurial category as an engine to create a robust growth in the rural sector.

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