

Informal Entrepreneurship and the Underdeveloped Economy-A Case Study of Odisha

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Abstract. This paper investigates the differences between entrepreneurial activities in the formal sector and the informal sector particularly in an underdeveloped economy of the State of Odisha. It is further attempted to examine whether in an underdeveloped region entrepreneurship is seen as an economic pursuits resulting from necessity or opportunity created by the State. It is also intended to through light on the presence of a dominating size of population belonging to the Underprivileged Class and their entrepreneurial behavior in the region. In other words, the propensity for Entrepreneurial options among different social groups has also been analyzed.

Keywords: Informal entrepreneurs, formal entrepreneurs, Opportunity entrepreneurship, necessity entrepreneurship, Underprivileged Class

1 Introduction

Entrepreneurship is a dynamic function wherein people willing to take risks to exploit existing business opportunities and develop new ones. However, many businesses in developing countries are established not to exploit business opportunities but because the owners cannot find suitable jobs for sustenance. This phenomenon is true in case of the informal sector i.e., the unregistered sector. In an underdeveloped region due to lack of availability of wage employment, entrepreneurship becomes the obvious choice among the social groups who have hitherto never engaged in business or entrepreneurship.

People start businesses either because they want to exploit a perceived business opportunity (opportunity entrepreneurs) or because they are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory (necessity entrepreneurs). Besides dominance of self-employment, it has also been found that entrepreneurs of these regions engage in informal sectors of the economy. Some studies have confirmed that informal sector absorbs surplus manpower in the form of employment or self-employment by providing income earning opportunities for the poor (Chaudhari and Banerjee, 2007; Nelson and

Bruijn,2005). From the perspectives of this school of thought, informal work takes place in subordinated economic units that serve the competitiveness of larger firms and the self-employed entrepreneurs engage in entrepreneurial activity out of economic necessity and in the absence of alternative means of livelihood (Chen et al,2002; ILO, 2002 a,b,c; Kapoor, 2007). Not all entrepreneurs in India however are necessity-driven as corroborated by the 2002 GEM survey of legitimate entrepreneurship. Although this global survey noted a higher incidence of necessity entrepreneurship in less developed countries, there are opportunity-driven entrepreneurship operating in India may be operating informally not out of necessity but due to the ease and comfort of operating in this system.

Economic backwardness and rigidity in social practices in terms of consumption behavior which is a drag on entrepreneurship perhaps move together. Both the phenomena are self-perpetuating. Regional inequality continues to be a problem of development in all countries. However, its causes have become more complex than simple attribution to the function of the market. The presence of a dominating underprivileged class in a developing economy further aggravates the understanding of their entrepreneurial behavior. Odisha is a state within India which is not only ranked at the bottom of the development parameters but also it has substantial percentage of underprivileged section of population, whose participation in entrepreneurial engagement is very low. There are several socially underprivileged groups placed in the bottom of the pyramid particularly the SCs (Scheduled Castes), STs (Scheduled Tribes) who have maintained their distinct linguistic, cultural and social/organizational characteristics along with OBCs (Other Backward Castes) group continue to survive at below sustenance level.

The objective of this paper is to analyze the nature and characteristics of entrepreneurship in an underdeveloped region of India, i.e. the state of Odisha. It also attempts to examine the level of informal entrepreneurship and their dominance in this underdeveloped region. Furthermore, some economic variables are identified so as to see how far the informal entrepreneurship vis-à-vis formal entrepreneurship played their respective roles in an underprivileged State of Odisha.

2. Literature Survey

Many studies have examined cross-country determinants of entrepreneurship although study of marginalized groups per se, was not aimed at. In general, these studies do show that

more onerous regulations deter entrepreneurship (Klapper et.al 2006), that reduction in the number of procedures required initiating a business help entrepreneurs (Bruhn 2010) and that increased growth opportunities lead to increased mobility from informality to the formal sector. Kaivan Munshi's empirical analysis illustrates the importance of social networks in finding jobs or climbing out of poverty (Munshi 2003, 2011). Like this many studies suggest that marginalized groups get more of a helping hand from their own community however, construed, and then they do from top-down dismantling of generalized regulatory barriers.

Iyer and Schoar (2010) showed that community ties influence the entrepreneurial behavior in a controlled setting in India. Kalnins and Chung (2006) examine this matter for Gujarati entrepreneurs in the hotel industry in the U.S. Vissa (2011) demonstrates that in knowledge-intensive industries entrepreneurs tend to privilege those who are from their own caste group and speak their own caste language in attempting to form an enterprise.

In the large and rapidly growing literature on the informal sector, and in stark contrast to the literature on entrepreneurship, investigating the relationship between entrepreneurship and informal sector has moved ever more centre stage. Conventionally, the study of informal sector was dominated by the structuralist school of thought which depicts the informal sector as absorbing surplus labour by providing income-earning opportunities for the poor (Chaudhuri and Banerjee, 2007; Nelson and Bruijn,2005). Over the past decade or so, however this observation has largely been transcended. It is now recognized that a large proportion of jobs are in the informal sector in most countries: 48% of non-agricultural employment in North-Africa; 51% in latin America 65% in Asia and 72% in Sub-Saharan Africa (ILO, 2002 b.). Contrary to this structuralist depiction of informal work as wage employment, however, it has been revealed that a large proportion is conducted on a self employed basis;70% in Sub-Saharan Africa,62% in North Africa,60% in Latin America and 59% in Asia (ILO,2002b). Rather than viewing informal workers as low-paid waged employees working under sweatshop conditions, it was recognized that such workers have been widely re-conceptualized as persons displaying attributes, traits and qualities of entrepreneurs.

This more entrepreneurial re-reading of the informal sector first emerged in a majority (Third) world context (Cross, 2000; Cross and Morales, 2007; De Soto, 1989, 2001; ILO, 2002a; Rakowski, 1994), As the ILO (2002a,p.54) asserts, the informal sector represents an incubator

for business potential and transitional base for accessibility and graduation to the formal economy and informal entrepreneurs 'display real business acumen', creativity, dynamism and innovation. In recent years, however, this depiction of informal sector as a hidden enterprise culture has also begun to take hold in western economies and post-socialist societies (Snyder, 2004). Until now, however, most informal entrepreneurs have been widely believed to be necessity-driven. However, with the deficiency of exhaustive research, this assigning of necessity motives to informal entrepreneurs has been based on assumption of prevailing economic conditions of a country and certainly requires wider research to prove otherwise. This paper will add to the existing literature on informal entrepreneurship and the underprivileged class in an underdeveloped economy.

3. Research Methodology and Source of Data

This is an indicative study based on published data from secondary sources of Government of Odisha (GOI) documents. The Census data published by MSME(Micro, Small and Medium Enterprises- 2006-07) have been used for the purpose of our analysis of the subject. To make the analysis more indicative, relationship study such as per enterprise employment, per enterprise Investment, per enterprise output, Output/asset ratio, inter alia, are examined for both formal as well as informal sectors, so as to see the characteristic difference of entrepreneurial engagement in an underdeveloped economy. A perspective has also been drawn by relating the phenomenon of entrepreneurship among different social groups.

4. Results and Interpretations

The Table below depicts some economic indicators such as per enterprise employment, per unit of fixed assets owned, per unit of output generated and contribution of assets (investments) in value addition (assets-output relationship) among different social groups (both underprivileged caste groups and the privileged caste groups). The economic performance of the enterprises belonging to different social groups under formal as well as informal sector are separately analyzed so as to predict the formality visa-a-vis informality of sectors and their implicit concentration thereby. In the formal sector the SC, ST and OBC owned enterprises hold 5%, 2.35% and 27.74% respectively of the total enterprises which constitutes 35% of the total formal sector. The underprivileged class, therefore contribute to 35% of enterprise ownership leaving the rest to the domination by the upward castes (privileged social group), despite the fact

that the SC & ST alone in terms of population share constitutes 40% of total population of the State, (2011-Census Report). In case of informal sector however, the SC (10.91 %), ST (16.57%) & OBC (41.47%), together contribute to around 69% of total enterprise ownership. This indicates that in the informal sector the underprivileged class dominates their presence as compared to the other privileged social groups. Within the underprivileged class the share of SC (10.78%) & ST (16.28%) owned enterprises out of total enterprises are not so high in comparison to their share of population, although the share of OBC owned enterprises are quite high (41.19%). The social group i.e., OBC dominates their presence in enterprise ownership which is far higher than their counterpart in the privileged class i.e. 31.73% when registered (formal) and unregistered(informal) sector are taken together. Despite the dominance of the underprivileged class in terms of ownership of enterprises (unregistered sector), per enterprise employment generation in unregistered sector was slightly higher than 2 by all the social groups. Interestingly in the formal sector, the SC enterprises (4.74% enterprises) the OBC (5.39%) and the others (10.82%) have substantially shown high rate of employment generation. This indicates that most of the entrepreneurs operate at their household level and that to catering to the employment of their own family members. This is the reason that the informal sector contributes to 98% of enterprise ownership and 92% of employment in Odisha.

Table: Performance Indicators and Social Group Entrepreneurs in both formal and informal Enterprise sectors

<i>Economic Indicator for Evaluation</i>	FORMAL SECTOR (REGISTERED SECTOR)					INFORMAL SECTOR (UNREGISTERED SECTOR)					TOTAL R + U
	SC	ST	OBC	OTHERS	TOTAL	SC	ST	OBC	OTHERS	TOTAL	
<i>Number of enterprises ('000)</i>	0.98 (5.00)	0.46 (2.35)	5.44 (27.74)	12.73 (64.91)	19.61 (100)	104.49 (10.91)	158.74 (16.57)	397.30 (41.47)	297.59 (31.05)	958.12 (100)	977.73
<i>Employment generated ('000)</i>	4.65	1.22	29.36	137.85	173.08	210.34	343.22	883.30	669.34	2106.2	2279.28
<i>Per enterprise employment (Nos.)</i>	4.74	2.65	5.39	10.82	8.8	2.01	2.16	2.22	2.24	2.19	2.33
<i>Market value of fixed assets (Thousand crore)</i>	0.04 (0.74)	1.01 (18.84)	1.55 (28.91)	2.76 (51.49)	5.36 (100)	0.42 (6.15)	0.56 (8.21)	2.54 (37.24)	3.30 (48.38)	6.82 (100)	12.18
<i>Gross output (in Thousand crore)</i>	0.12	0.16	2.38	12.09*	14.75	0.85	1.21	5.90	6.16	14.12	28.87
<i>Per unit output (in lacs)</i>	12.25	34.78	43.75	94.97	75.22	0.81	0.76	1.48	2.07	1.47	2.95

<i>Output/assets ratio</i>	3.0	0.15	1.53	4.38	2.75	2.02	2.16	2.32	1.86	2.07	2.37
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SOURCE: MSME, 4th All-India census-Orissa state-2006-07.

In terms of asset holding (fixed assets in thousand crore as shown in Table-5) the SCs, STs, OBC and others had 0.74%, 18.84%, 28.91% and 51.49% respectively indicating thereby the underprivileged class together holds around 48.5% of total assets in registered sector and 51.6% in unregistered sector. In terms of their size of population the share of assets holding (fixed assets) by the underprivileged class both in formal sector and informal sector is quite low. We can therefore conclude that the investment in enterprises is at a low level as most of the entrepreneurs operate at household level. The OBC social group within the underprivileged group, however, has a better economic standing in terms of proportion of asset ownership {28.29% (registered) and 37.24% (unregistered) in comparison to their counterparts SC and ST entrepreneurs within the underprivileged class.

Investment in Fixed Assets (FA) supposedly creates earnings through output that it generates. Therefore, the relationship between FA and output i.e., how many times the FA (investment) generated in to output is a good indicator of economic performance. The higher is the ratio (greater than 1), the higher is the propensity of output generation which is indicative of efficiency of FA utilization. The output-assets ratio indicates that the efficiency level is quite high in case of SC-group and ‘others’ privileged class category of enterprises in comparison to ST and OBC in the formal sector. But interestingly the efficiency in the utilization of FA for generating output in the unregistered sector, the performance of underprivileged class is better than that of the privileged class. The SC,ST &OBC enterprises have shown 2.02, 2.16 and 2.32 times of FA as output, while the ‘others’ social group (privileged group) has shown only 1.86 times of FA as their output. We can conclude that since most of the entrepreneurs are from underprivileged group having lower level of assets ownership, the entrepreneurial supply comes from a subsistence level may be due to economic necessity arising out of lack of alternative opportunities available in the State. Hence efficiency of asset management by underprivileged class in comparison to the privileged class is linked to their survival. Due to this the entrepreneurial behavior that emanates in one way from the underprivileged class is a question of continuity giving little scope to the growth of enterprise investment. It has become a perpetual phenomenon to remain at a level even if it is a ‘subsistence level’.

5. Conclusions

The informal entrepreneurship is indeed plays a bigger role in terms of perpetuating its stay in the State of Odisha as it provides scope for self-employment. In terms of formality (registered) vs. informality (unregistered) of the sector, the entrepreneurial behavior is largely seen among the underprivileged class in the unregistered sector. With few exceptions the size of enterprise- asset ownership of the underprivileged class is also very low in comparison to the privileged class entrepreneurs and also with that of their counterpart in registered sector. Therefore, it can be concluded that most of the entrepreneurs among the underprivileged class operate at their household level. This is because high concentration of Own account enterprises with a very low level of per enterprise investment along with a low rate of per enterprise employment generation in case of underprivileged class, justify the assertion that the entrepreneurial engagement in case of the underprivileged class is a household affairs giving little scope for modern entrepreneurial culture. The peculiarity lies with the fact that despite operation at a very low level of investment, the underprivileged social group owned enterprises have shown a high rate of efficiency in generating output in comparison to their counterparts in the 'Others' category.

However, one positive factor emerges out of it is that the huge growth rate during post-1980 period in the self-employment rate, particularly in case of the underprivileged group (in case of Odisha the self-employment rate was as high as 70% against the all-India average of 57.4% among 'others' category; 51.3% among OBCs ; 44% among STs ; and 30.7% among SC households – NSS report 66th round July 2009-2010, Govt. of India) works as an incubator for entrepreneurship development.

1.8 References

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