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Determinants of financial risk attitude among the handloom micro-entrepreneurs in North East India

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ABSTRACT

The rural non-farm micro-entrepreneurial activities in the informal sector hold significance in generating employment, removing poverty, and income inequality. The handloom industry in India holds a distinctive place in the Indian economy as it is the second largest provider of rural employment after agriculture. The North Eastern states of India accounts for more than 65 percent of the total handloom households in India. However, with only 4.26 percent of the total working looms utilized for commercial purposes, the industry is beset with manifold problems such as obsolete technologies, unorganized production system, low productivity, inadequate working capital, and weak market linkages. Therefore, undertaking financial risk plays here a defining role in overcoming these obstacles. Based on the primary data collected from 332 respondents, the present study analyzes determinants of financial risk attitude of the handloom micro-entrepreneurs using the Ordinal Probit model. Education, access to credit, access to training, and individual's income play a crucial role in influencing the risk aversion of the micro-entrepreneurs. These determinants are found to have a more dominant influence in lowering the risk aversion of female micro-entrepreneurs as compared to the male micro-entrepreneurs. The study suggests for providing vocational education and training programs that focus on entrepreneurship education to the rural female micro-entrepreneurs. Besides, it suggests for the provision and implementation of various financial inclusion programs for easy access to credit with proper follow up programs to ensure the efficient utilization of credit, with a primary focus on the female micro-entrepreneurs.

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1. Introduction

The rural non-farm micro-entrepreneurial activities in the informal sector hold significance in generating employment, removing poverty, and income inequality. While meeting the developmental goals, an entrepreneur's risk bearing capacity is regarded as an essential characteristic which distinguishes him/her from the other individuals in the field of entrepreneurship. Attitude towards risk of an entrepreneur plays a crucial role in determining the success in his/her entrepreneurial pursuits (Earle & Sakova, 2000; Knight, 1921; Schumpeter, 1939). For an entrepreneur, both

the risks and opportunities are like the two sides of the same coin and every step undertaken in conducting the business can be turned into an opportunity which depends on how efficiently an entrepreneur undertakes and manages the associated business and financial risks involved (Blunch, Canagarajah, & Raju, 2001).

In the face of growing market competition resulting from globalization, micro-entrepreneurs operating in the informal sector are less able to take the advantages of the growing market opportunities as compared to the larger firms (Carr, Chen, & Tate, 2000; Sulistyo & Siyamtinah, 2016; Wang & Yang, 2016). The rural non-farm micro-entrepreneurs need to produce high-quality products that cater to the needs of the market with increased bargaining power and greater market accessibility to benefit themselves from the emerging markets (Carr et al., 2000; Wang & Yang, 2016). Micro-entrepreneurs need to undertake financial risks regarding investment, production, and marketing to become innovative and generate profit. Hence, it becomes necessary to study the financial risk attitude of the micro-entrepreneurs operating in the rural

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informal non-farm sector. It bears the importance as the rural informal sector often lacks in formal credit access. Moreover, it is also important to know how the attitude towards financial risk influences the investment, production, and earnings, and thus the overall entrepreneurial performance. Existing data reveal that, in developing countries, a majority of the women are more actively engaged in micro-entrepreneurial activities in the informal sector as compared to the men (Carr et al., 2000). Hence, it is also crucial to study the risk attitude of the micro-entrepreneurs across gender.

The handloom industry in India holds a distinctive place in the Indian informal sector as it is the second largest provider of rural employment after agriculture. However, the removal of trade restrictions in the textile sector from January 1, 2005, infused greater competition among the Asian countries like China, India, Bangladesh, Vietnam, Sri Lanka and others to expand their market share. As a result, the Indian handloom industry, which is a part of the textile industry, faced severe competition. The handloom industry in North East India (known as handloom reservoir) is no exception due to numerous problems such as obsolete technologies, unorganized production system, low productivity, inadequate working capital, conventional product range, weak market linkages. Considering the situation, new approaches to entrepreneurial activities such as modern technology adoption, scaling up of different production activities, employment of skilled personals, improvement of business network, etc., have become crucial for entrepreneurial performance with the increased market challenges (Hazariika, Bezbaruah, & Goswami, 2016). In order to undertake such activities, a significant amount of financial capital is required, and thus, the entrepreneurs need to bear the financial risk.

Attitude towards risk is widely believed to affect the individuals' choices in entrepreneurship (Bortamuly, Goswami, & Hazariika, 2013; Bortamuly, Goswami, Hazariika, & Handique, 2014; Hazariika & Goswami, 2014). There exists heterogeneity in the performance of micro-enterprises such as that in the handloom firms in terms of investment, production, marketing, etc., where the variation in risk attitude, especially for the financial risk at individual level play a major role. Thus, there is a need to study how individual's attitude towards financial risk takes shape and what are the responsible factors for such variations. From a gender perspective, the females dominate the total handloom workforce but have a lower participation rate in entrepreneurial activities in the handloom industry in North East India (Bortamuly et al., 2014, 2013; Hazariika & Goswami, 2014, 2016; Hazariika et al., 2016). Moreover, there exists a gender difference in firm performance in the industry, and male-owned firms exhibit a better performance (Bortamuly & Goswami, 2012; Hazariika & Goswami, 2014). Given the relationship between the entrepreneurial risk and reward, do females' preferences for less risky activities explain their lower participation, smaller returns, and smaller size of their operation? Thus, it is also imperative to understand to what extent the factors differently explain the risk attitude across gender.

Given the above perspectives, the present study attempts to analyze the determinants of attitude towards financial risk of the micro-entrepreneurs in the context of the rural, non-farm, and informal sector. For the operational purpose, the study focuses on an under-researched area of handloom micro-entrepreneurship of North East India, a geographic and economic peripheral but strategically important region of India. The region shares more than 4500 km of the international border (about 90% of its border area) with China (Southern Tibet) in the north, Bhutan to the northwest, Myanmar in the east, and Bangladesh in the southwest. India and these border sharing countries comprise of a market of around 2.81 billion people, which roughly constitutes 40 percent of world's population (Federation of Indian Chambers of Commerce and Industry, 2014). Hence, North East India has immense potential to

become the gateway to international trade, and the region's age-old handloom industry can strive to develop its unrealized economic potentialities. Handloom being a widely established cottage industry of North East India employs a large amount of skilled and unskilled workforce, mainly consisting of female workers. As per the Handloom Census of India 2009-10, the handloom sector provides employment to 4.33 million persons engaged on 2.37 million handlooms across the country. Out of the total employment in the industry, there are 2.16 million weavers (49.87%) and 1.55 million handlooms (42.06%) in North East India. The majority of the looms in the North Eastern states are utilized for domestic purposes with a small proportion being used for both domestic and commercial purposes (Ministry of Textile, 2016). Addressing the manifold problems and giving thrust to the development of handloom micro-entrepreneurial activities among the rural masses of the region can uplift their socio-economic condition. The study attempts to throw light on the financial risk attitude of the handloom micro-entrepreneurs operating in the rural informal set-up of North East India which remains an under-researched context of the handloom industry.

2. Overview of handloom industry in North East India

The handloom sector, with 3.5 million looms, provides employment to about 4.23 million people in India. North East India accounts for more than 65 percent of the total handloom households in India. In contrast to the national trend that showed a decline in the number of handloom households by 34 percent, there is an increase of 3.4 percent of the handloom households in North East India, from 1.46 million in 1995–96 to 1.51 million in 2009–10 (NCAER, 2010). The region has a congenial climate for the healthy growth and development of the sericulture industry, covering Mulberry, Oak Tassar, Eri, and Muga silk. North East India holds the unique distinction of being the only region producing these four varieties of silk. The region contributes 15 percent of the India's total silk production and produces 100 percent of Muga, 99 percent of Eri, 60 percent of Oak Tassar, and 1 percent of Mulberry silk in the country. Assam is the 4th largest silk producing state in India (Central Silk Board, 2015).

The micro-entrepreneurial activities in the region are at an early stage characterized by informality and are unorganized with very less commercialization of the handloom merchandise (Hazariika & Goswami, 2014). According to the 2009-10 handloom census conducted by the National Council of Applied Economic Research (NCAER), despite having the highest number of handloom households, North East India accounts for the lowest percentage of looms operating for commercial purpose. Out of the total working looms in the region only 4.26 percent is used entirely for commercial purposes (NCAER, 2010). While the traditional silk producing countries like Japan, Korea, Brazil, and Russia have drastically cut down their production due to different socio-economic reasons, India, taking advantage of the situation, has launched a massive developmental scheme on sericulture. As a result, the export of silk has been registering a steady growth of 30 percent annually for the last few years (Ministry of Textile, 2016). The North East India, given its proximity to the South East Asian markets, has the potential to transform herself into a thriving market hub. With technology upgradation, improvement in design capability, diversification of product lines and value addition, improvement in labor productivity, better access to domestic and export markets, the handloom industry of North East India can compete and make a place for itself in the world market. In order to derive the maximum benefit, the participation of the entrepreneurial community is essential where their attitude towards risk plays a crucial role towards employing modern approaches in handloom production activities.

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