

# Entrepreneurship in Subsistence Setting: Evidence from Facilitated Entrepreneurship Program in Nepal

MSc Degree Programme in Creative Sustainability

Master's thesis

Tara Panthi

2015

# Entrepreneurship in Subsistence Setting: Evidence from Facilitated Entrepreneurship Program in Nepal

---

Tara Prasad Panthi

Master's Thesis

Aalto University, School of Business

Department of Management

Creative Sustainability Program

2015

Supervisor: Minna Halme

## **Abstract**

Entrepreneurship development programs are becoming growingly popular intervention for poverty alleviation around the world. Entrepreneurship development ensures both the capability development of the poor for immediate income opportunity and investment in the production sector for long run economic sustainability and development. However there is very little knowledge about entrepreneurship phenomenon in subsistence setting. The objective of this thesis is to contribute to the knowledge of facilitated entrepreneurship programs in subsistence setting by identifying the factors affecting entrepreneurship process in that context and also the potential bottlenecks of such programs.

The literature review of this thesis presents detailed study of various theories on entrepreneurship and juxtaposes them in relationship to the subsistence setting of Nepal in order to build a theoretical framework based on which detailed analysis of the finding is done. Entrepreneurship is reviewed from the perspective of economic theories, Psychological/personality trait theories, contextualized theories and subsistence setting variables.

The research is conducted as a case study of the facilitated entrepreneurship development program in Nepal called Micro-Enterprise Development Program (MEDEP). Within the bigger case of MEDEP, its district level units and program subunits and entrepreneurs serve as subcases. The data is mainly collected from the semi structured interviews with the entrepreneurs and relevant stakeholders from MEDEP. The data is analyzed based on the theoretical framework developed from the literature review. The theoretical framework maps the entrepreneurship ecosystem into five levels: Subsistence entrepreneur, subsistence enterprise, developing economic environment, diverse social, cultural and political environment, and difficult and diverse geography and ecology.

The research shows that there are multiple factors at different levels of the entrepreneurial ecosystem in subsistence setting that affect the process of entrepreneurship. At the level of entrepreneur it is the need, capability and motivation that affect entrepreneurship process. At enterprise level the affecting factors are technology, management and business differentiation. At the level of economic environment it is the micro and macro-economic factors and access to finances that affect. Traditional and indigenous knowledge, lack of entrepreneurial tradition, and vulnerable political situation and migration at the subsistence setting affect at the level of social-cultural-political environment of entrepreneurship ecosystem. The geographical and ecological factors play both as a barrier and opportunity in the ecosystem. Major bottlenecks of the facilitated entrepreneurship program are dependency syndrome, scale up hindrances, and lack of proper centralized marketing and branding.

## **Contents**

Abstract.....	2
Table of Figures .....	5
1    Introduction.....	6
1.1 Background and Research Problem .....	6
1.2 Research Objectives.....	8
1.3 Research method and data .....	9
1.4 Thesis structure .....	9
2    Literature review on entrepreneurship and subsistence setting .....	10
2.1    Economic Theories on Entrepreneurship .....	10
2.2    Psychological/Personality Trait Theories on Entrepreneurship .....	15
2.3    Contextualized Views on Entrepreneurship.....	21
2.4    The Theoretical Framework for Entrepreneurship.....	25
2.4.1 Geography and Ecology.....	25
2.4.2 Social, Cultural and Political Environment: .....	26
2.4.3 Economic Environment .....	26
2.4.4 Enterprise .....	27
2.4.5 Entrepreneur.....	27
2.5    Subsistence Setting of Nepal and Contextual Variables .....	28
2.6    The Theoretical Framework for Entrepreneurship Ecosystem in Nepalese Subsistence Setting .....	31
2.6.1 Difficult and Diverse Geography and Ecology of Nepal:.....	32
2.6.2 Diverse Social, Cultural and Political Environment: .....	32
2.6.3 Developing Economic Environment:.....	34
2.6.4 Subsistence Enterprise: .....	35
2.6.5 Subsistence Entrepreneur:.....	35
3    RESEARCH STRATGY: A CASE WITH MULTIPLE CASES .....	36
3.1 Research Method .....	36
3.1.1.    A case with multiple cases as a research strategy .....	38
3.1.2. Data Collection and Management.....	39
3.1.4. Analysis and Interpretations .....	42

3.2 Limitation of the Study .....	43
<b>4 EMPIRICAL FINDINGS .....</b>	<b>44</b>
4.1 Economic Empowerment.....	44
4.2 Social-Political Empowerment .....	46
4.3 Technical Skills Development and Appropriate Technology Availability .....	48
4.4 Access to Finance Service .....	51
4.6 Market Linkage and Business Counseling.....	54
4.6 Business Strategy and Growth .....	56
<b>5 ANALYSIS OF THE EMPIRICAL FINDINGS.....</b>	<b>57</b>
5.1 Factors affecting Entrepreneurship .....	58
5.1.1 Entrepreneur.....	58
a) Need: A Driver and a Bottleneck of Entrepreneurship .....	58
b) Capability: A Fuel for Entrepreneurship.....	59
c) Motivation: Entrepreneurship is a Flux .....	60
5.1.2 Enterprise .....	63
a) Technology .....	63
b) Management .....	64
c) Business differentiation .....	64
5.1.3 Economic Environment and Support System .....	65
a) Micro Economic Environment.....	65
b) Macro-Economic Environment.....	66
c) Source of Finance .....	68
5.1.4 Social-Cultural-Political Environment.....	69
a) Traditional and Indigenous Knowledge .....	69
b) Lack of Entrepreneurial Tradition .....	70
c) Vulnerable Political Environment and Migration.....	71
5.1.5 Geography and Ecology.....	73
5.2 Bottlenecks of Facilitated Entrepreneurship Programs.....	75
5.2.1 Dependency Syndrome .....	75
5.2.3 Scale up Bottleneck.....	76
5.2.4 Lack of strong MEDEP brand.....	77

6 CONCLUSION .....	78
REFERENCES .....	82
APPENDIX.....	89

## Table of Figures

Figure 1: Activities and characteristics often attributed to entrepreneurs (Filion 2011).....	19
Figure 2: Gartner's conceptual framework for describing the phenomenon of entrepreneurship.....	24
Figure 3: Theoretical Framework for Entrepreneurial Ecosystem .....	25
Figure 4: Figure 4: Theoretical Framework for Entrepreneurship Ecosystem in Nepalese Subsistence Setting.....	31
Figure 5: A system map of the case study .....	38
Figure 6: CFCs visited .....	41
Figure 7: Story of Sabina Subba.....	46
Figure 8: A Story of Kalpana Nepali.....	47
Figure 9: Technical and Technological Assistance in Sirjana Micro Enterprise Group.....	49
Figure 10: Bhakta Bahadur Bishwakama.....	51
Figure 11: Jagat Bahadur Marsangi.....	52
Figure 12: Ganga Timilsina.....	54
Figure 13: Ghurunga Multipurpose CFC.....	55
Figure 14: Mohan Magar, EDF, Surkhet.....	56
Figure 15: Lalit Saru, EDF, Surkhet.....	57
Figure 16: Uttam Shrestha, MES,Surkhet.....	61
Figure 17: Bhavi Khatri and Dilmaya Pulami Magar .....	66
Figure 18: Ginger and Turmeric Processing CFC.....	67
Figure 19: Ganesh Prasad.....	72
Figure 20: Story of Jasmaya Pun.....	74

# **1 Introduction**

## **1.1 Background and Research Problem**

Today, almost 1.3 billion people live in extreme poverty with an income of less than 1.25 dollar a day. There is another billion population which is slightly less worse off living on less than 2 dollar a day (UN MDG, 2013). Most of these poor people are the citizens of the developing countries. Eradication of poverty from the world has been a major concern for all the governments and international agencies such as the UN. Among the interventions for poverty alleviation and economic development in the impoverished and lower income regions of the world, policymakers and scholars have proposed entrepreneurship as the most effective measure (Mead & Liedholm, 1998). Entrepreneurship is often seen as the central factor in economic growth and development. It helps efficient allocation of resources, strengthens competition among firms, supports innovation and new product design, and promotes trade growth for economic development (Ghani et. al., 2011). If local entrepreneurship in less developed countries is supported by “certain framework conditions such as governance, attitudes, access to resources, infrastructures, and credible political systems” then it can be “spur for economic development” (Acs and Szerb, 2009).

For profit entrepreneurship where an individual or a team of individuals identify and enact an opportunity to create new venture have two important pro-social functions relevant for economic development and poverty alleviation (Gielnik and Frese 2013). First, entrepreneurship contributes to the creation of new jobs and to greater production of goods and services (Carree & Thurik, 2003). This trickles direct and indirect positive effect in both micro and macro economy of the country to contribute to poverty alleviation. At micro

level it provides immediate earnings to the entrepreneur which is often higher than the wage and salaries they would otherwise be earning. This means entrepreneurs can afford to spend more money on private consumption and improve their living standard (Fairlie, 2005; Tamvada 2010). On a macro level, entrepreneurship increases self-employment leading to subsequent decrease of unemployment (Fritsch, 2008). It is also found that entrepreneurial firms have the highest percentage growth in employment compared to other type of businesses (Vann Praag & Versloot). The cumulative effects of these micro and macro level economic impact of entrepreneurship contribute to the national GDP growth and rise in per capita income. This suggests that entrepreneurship is an important driving force to alleviate poverty through the creation of employment and wealth (Gielnik and Frese, 2013; Low and MacMillan, 1988). Second function of entrepreneurship for economic development and poverty alleviation comes from the knowledge spillover and technological changes it brings in the society. Entrepreneurs implement the technological inventions, innovations and knowledge that come as outcome of research in large firms or universities to create more value for the society. Entrepreneurs are able to improvise and develop different marketable novel products on the basis of single invention and act as value multiplier in the economy (Acs, 1992). Therefore entrepreneurs also contribute to the economic development and poverty alleviation by serving as a technology and knowledge transfer agent from a research institute to the general society.

Most of the poverty alleviation programs in developing countries are funded by the foreign financial aids. In the past most of these aids for poverty alleviation were concentrated in bringing structural enhancement of the countries governance and infrastructures. Big projects, also known as white elephants, were implemented in top down approach for this purpose. The bigger the projects were, bigger were the bureaucratic procedure to implement them, and bigger were the corruption and mismanagement associated with them. Up to 30 percent of foreign aid in such projects is estimated to go directly into the pockets of corrupt officials, for their personal use, and at the end the people in need received very nominal benefit (Shleifer 2009, World Bank; Ayodele, 2005). Most often such poverty alleviation program designers and implementers are unaware of the ground reality and they “do not know which investments are appropriate for a developing economy, so aid money is poured into bad projects, which fails to encourage economic growth and divert scarce human and other resources away from production sector” (Shleifer 2009). In this context bottom-up approach of entrepreneurship development programs among the poorest ones is seen as the best approach by the donor countries and international agencies for poverty alleviation. Entrepreneurship development ensures both the capability development of the poor for immediate income opportunity and investment in the production sector for long run economic sustainability and development.

Despite a lot of interest from the policy makers, “much less effort has been devoted to studying the actual entrepreneurs” and the entrepreneurship phenomenon in subsistence setting. “Most policy makers as well as economic researchers alike treat entrepreneurs as a homogenous group of actors that are uniformly affected by economic conditions or policy interventions” (Antonientte, 2009, Friederike, 2011). The distinctions that might occur in the entrepreneurship phenomenon due to geographical, micro and macroeconomic, societal and other contextual factors of subsistence setting have not been thoroughly acknowledged in the literatures. In this research I am interested in understanding how entrepreneurship evolves within the context of subsistence setting of Nepal. The specific questions that I want to answer with this thesis are ***1) what factors should be considered when a government or other agency plan to facilitate entrepreneurship in subsistence setting. And 2) what are the potential bottlenecks of such facilitated entrepreneurship development programs?***

## 1.2 Research Objectives

Among the developing countries, Nepal is no exception to the aforementioned challenges of poverty alleviation. Entrepreneurship development in the subsistence setting of Nepal is seen as an effective means for poverty alleviation. In fact, the Micro-Enterprise Development Program (MEDEP) that was started in Nepal in 1998 with the assistance of United Nations Development Program (UNDP) has successfully incubated more than 65,000 entrepreneurs to this date bringing them out of extreme poverty. The program is currently running in 45 out of 75 districts of the country. This program has received significant national and international acclamation for its contribution as one of the few successful programs for poverty alleviation in Nepal. Its role in sustainable economic development is also equally praised and recognized (Dubson 2013). With the success of the program the government is planning to extend the implementation of this program to all 75 districts. In this context, the policy makers are interested in understanding how this program can be improved and enhanced for getting better and sustainable results.

I expect that the findings to the research questions will be useful in proper design and implementation of entrepreneurship development programs for poverty alleviation in subsistence setting of Nepal and other developing countries with similar context. I hope that this thesis will also give a new perspective to differentiate entrepreneurship in subsistence setting context from that of other contexts.

### **1.3 Research method and data**

The research questions will be answered on the basis of empirical research and will be validated with the relevant existing literature. The empirical part of the research is conducted as qualitative case study.

During the summer of 2013 I got an opportunity to conduct a policy research at the Ministry of Industry Micro-Enterprise Development Program (MEDEP) in Nepal. During that 3 months long assignment I conducted several field visits to the program's intervention area in different part of the country. Several entrepreneur incubation centers run by the program were visited and focus group interviews were conducted with entrepreneurs for the purpose of data collection. Similarly, entrepreneurs who were not affiliated with the program but were from the same areas and had similar economic background were also interviewed. This research will use the data from these interviews for empirical analysis. In this sense, the research is a case study of entrepreneurial phenomenon in Nepalese subsistence setting. However, embedded within the bigger case are multiple cases of entrepreneurship, each representing unique entrepreneur incubation center from different part of Nepal. The incubation centers are also very heterogeneous in terms of product and service they provide. Secondary data from the Ministry of Industry and other relevant source is also used whenever required in the empirical analysis.

### **1.4 Thesis structure**

Following the introduction chapter I present a thorough review of literature on entrepreneurship based on which a general theoretical framework for entrepreneurship is prepared. This framework is juxtaposed in relation to the subsistence setting of Nepal and its enhanced contextualized version is created which will guide the findings of this thesis. In chapter 3 I will show the details on how I conducted the research and what factors contributed to the research design choice and its limitations. Chapter 4 will present the empirical findings based on the cases studied. The empirical findings are presented in the form of effectiveness of the MEDEP's CFC program in achieving its goal of developing sustainable enterprises and poverty alleviation among its beneficiaries. Chapter 5 will present the analysis of the empirical findings in order to answer the research questions in relation to the theoretical framework prepared in chapter 2. Chapter 6 will present the conclusion of this thesis by combining the findings from this empirical research and through literature review. Recommendation for further research areas are also identified in the conclusion.

## **2 Literature review on entrepreneurship and subsistence setting**

Entrepreneurship is a multifaceted discipline that cuts across many disciplinary boundaries. This phenomenon is “intertwined with a complex set of contiguous and overlapping constructs such as management of change, innovation, technological and environmental turbulence, new product development, small business management, individualism, and industry evolution” (Low and MacMillan). Therefore it is no coincidence that traditionally entrepreneurship has been productively investigated “by borrowing theories from other disciplines, notably sociology, psychology, and economics”, each of which has its own terms of references (Zahra, 443-452, 2007). However, the problem with studying entrepreneurship through lens of only one discipline is that it will capture only one facet of entrepreneurship. By doing so aspects of the entrepreneurship phenomenon will be individually understood but the whole picture will not be captured. Especially, in the subsistence setting where all the constructs of entrepreneurship are constantly evolving the effort to understanding it through one perspective will not create meaningful results.

The aim of this chapter is to establish comprehensive knowledge and foundation for the empirical part of the thesis. In the first part the complex field of entrepreneurship will be explored to understand who the entrepreneur is and how entrepreneurship should be studied in the context of subsistence setting. A thorough review is done on different approaches to understanding and explaining the phenomenon of entrepreneurship and their relevance is juxtaposed in subsistence setting. The approaches studied are namely: economic theories, psychological and personal trait theories, and contextualization theories. The second part of this chapter will be focused on understanding the subsistence setting in Nepalese context. Based on the first and the second part a comprehensive theoretical framework will be prepared at the end of this chapter which will be used in analyzing the empirical part of the thesis.

### **2.1 Economic Theories on Entrepreneurship**

The pioneer of the economic theory on entrepreneurship is the 17<sup>th</sup> century French economist, successful banker, and merchant Richard Cantillon. In his famous book *Essai sur la Nature du Commerce en Général* (*Essay on the Nature of Trade in General*) he defines entrepreneurs as non-fixed income earners who pay known cost of production but earn uncertain incomes. He distinguishes the inhabitants of the state into two classes: entrepreneurs with unfixed wages and “hired people” with fixed wages (Tarascio, V. J., 1985). According to him entrepreneur is “someone who engages in exchanges for expected profit (or unexpected loss) by exercising business judgments in the face of uncertainty”. Cantillon stressed on the function, not the personality or social status of the entrepreneur

and generalized it to embrace many different occupations and to cut across production, distribution, and exchange. He even identified the beggars and robbers as entrepreneurs provided that they took chances (i.e., faced economic uncertainties). He argued that the origin of entrepreneurship lies in the lack of perfect foresight. Future is unpredictable and an individual cannot know, in advance, its impact on economic life. Uncertainty is a pervasive fact of everyday life and those who consciously base their economic decisions on it are entrepreneurs (Hebert and Link 1989).

Another Frenchman Jean-Baptiste Say defines entrepreneur as the central coordinator of both production and distribution function, and within the firm he acts as the modern leader and manager. He calls the entrepreneur “the Master-agent” or “Adventurer” (Say 1971). He is the first economist to stress the managerial role for the entrepreneur. He gives a very prominent position to the entrepreneur in the system of production and consumption by treating them as a ‘superior kind of labor’. These labors give utility to the existing materials (capital and nature) a utility they did not possess before by “the application of knowledge to the creation of a product for human consumption” (Praag, 1999). According to Say, these “adventurers” mostly require themselves to provide the fund to begin their ventures or at least they should “be solvent, and have the reputation of intelligence, prudence, probity, regularity, judgment, and perseverance”; and also must have a knack of calculation of future uncertainties. “Thus, the requisite capacity and the talent limit the number of competitors for the business of entrepreneurs” (Say 1971). The limited supply of these characteristics “makes the price of successful entrepreneurial labor at a high level, since in Say’s classical economy all prices are determined by supply and demand. This is also why this class of producers accumulates the largest fortune” (Praag 1999). In doing so, unlike Cantillon, Say stresses both on economic function and personality traits of the entrepreneur.

Joseph Schumpeter was the first economist to differentiate the entrepreneur as an innovator from the predominant paradigm where entrepreneurship was management of the firm and the entrepreneur merely a manager. In modern business language, he installed entrepreneur as the leader of the firm, and as the innovator the prime mover of the economic system. He was opposed to the idea of the entrepreneur as a risk bearer. He integrated psychological theory in the economic theory of entrepreneurship (Praag 1999). He developed the concept of entrepreneur against the backdrop of development. For him development was a dynamic process, a disturbing of the economic status quo. According to him the mainstream economic analysis of the static, general equilibrium approach which he calls “the circular flow of economic life” had been crowding out the vital process of economic development and hence entrepreneurs and entrepreneurship. For him “creative

destruction” or the disturbance of the circular flow was the essence of development which occurred in industrial and commercial life by carrying out new combinations of production. Since the entrepreneur was the *persona causa* of the disruption, i.e., the economic development, for Shrumpter, entrepreneur was the key figure for economic development (Herbert and Link 1989). The Schumpeterian entrepreneur proactively changes the technological possibilities, alters convention through innovative activity and doing so moves the production constraints. For Schumpeter, only certain extraordinary people have the ability to be entrepreneurs and bring about extraordinary events (Deakins and Freel, 2003). Therefore for Schumpeter, entrepreneurship is “the making of a new combination of already existing materials and forces and it consists of making innovations, as opposed to inventions; and that no one is an entrepreneur forever, only when he or she is actually doing the innovative activity” (ed Swedberg, 2000).

Frank Knight distinguishes between risk and (true) uncertainty and defines economic function of the entrepreneur to be “bearing the real uncertainty” for profit. For Knight, uncertainty unlike risk is uninsurable. “Hence, judgment should be exercised both for the formation of an estimate and the estimation of its value”. This true uncertainty which had been ignored in the market is “borne by a particular subset of individuals in society: the entrepreneurs” (Praag 1999). For him, by exercising judgment over these unique situations of uncertainties in the economy the entrepreneur functions as an insurance agent (Bula 2012). Entrepreneurs are also responsible for economics progress such as improvements in technology and business organization. Their ability is the bottleneck in determining the size of any business in the society and it is of utmost importance to the society to select the entrepreneurial positions to the individuals who are most apt for it (Praag 1999). According to Knight the characteristics to produce value out of uncertainty requires one to have a high degree of self confidence and foresight, ownership to the enterprise, knack of identifying right candidate to employ, ability to juxtapose own qualities with that of other individuals (competitors, suppliers, buyers, and employees). One should also be able to have effective control over other stakeholders and have the intellectual capacity to decide that should be done. An “element of luck” is also important for a successful entrepreneur (Knight 1964, p 264-271).

Theodore Schultz pioneered the theory of entrepreneurship rooted in the theory of human capital. He redefined entrepreneurship as the ability to deal with disequilibria and extended the notion to non-market activities such as household decisions, allocation of time and market activities. He also highlighted on the effects of education on people’s ability to perceive and react to disequilibria. Schultz extends Schumpeter’s idea of entrepreneurs creating developmental disequilibria to all manners of other disequilibria such as the “laborers who are reallocating their labor services; and students, housewives, and

consumers who are reallocating their resources in the form of time". According to him "regaining equilibrium takes time, and how people proceed over time depends on their efficiency in responding to any given disequilibrium and on the cost and returns of the sequence of adjustment available to them" (Schultz 1975, pp.832). By differentiating between the disequilibria faced by firms, households, and individuals, Schultz traces out the supply functions for entrepreneurship i.e., "the useful ability to deal with disequilibria". The supply of this ability (entrepreneurship), for Schultz, depends on how much "stock" of a particular form of "human capital" is present at the given time and "on the costs and the rate at which the stock can be increased in response to the rewards derived from the services of the abilities". Entrepreneurship being a "useful factor of production" has an identifiable "marginal product". It follows that there exists a "market" for such abilities in the sense of normal supply and demand functions (Herbert ad Link). In disequilibrium, agents are acting sub-optimally and can reallocate their resources to achieve a higher level of satisfaction. Entrepreneurship is the ability to coordinate this reallocation efficiently, and it follows that agents have different degrees of entrepreneurial ability (Bula 2012). The human capital approach of Schultz rejects the idea that entrepreneurial rewards are the returns of associated risks. Schultz, recognizes risk as something omnipresent in a dynamic economy and there is no exclusive connection between risk and entrepreneurial activity. According to him entrepreneurs assume risk but there are other people who are not entrepreneurs and assume risk (Herbert ad Link 1989).

English Economist G.L.S. Shackle thoroughly explored the mental processes of decision making of the entrepreneur to define entrepreneurship. In this process, according to him, "the entrepreneur first imagines a set of alternative future states of differing characteristics and differing likelihoods of success and then chooses from that set the most desirable plan" (Wood 2005). For Shackle entrepreneurship is concerned with thoughts (plans) and only secondarily with things, the objects of those thoughts, must be as changeable as thought itself. Action of the entrepreneur is guided by plans, i.e., by thought, and all action has to be interpreted as the outward manifestation of such plans, which must be coherent if they are to have a chance of success (Lachman 1976). Shackle emphasizes on the "kaleidic" (uncertain) nature of economy to define the entrepreneur. According to him, economy is always "kaleidic" and there are "moments of profound changes" on larger or smaller scale where the entrepreneur "plans" his entrepreneurship (Wood 2005). Therefore, Shackle's entrepreneur is someone who is creative and imaginative. "The act of imagination is important for identification of the potential of opportunities. This potential is compared to resources available, which can lead to decisions to produce resulting in the act of entrepreneurship (Deakins and Freel 2003, pp 7). Shackle's entrepreneur makes decision "under uncertainty", as opposed to risk, "from memory time through the present moment

into expectational time". When the entrepreneur intervenes in the "kaleidic" market with their interventions, i.e., their enterprises, they "improve the coordination of the market among market participants"; hence, entrepreneurship brings a new equilibrium in the market (Wood 2005).

According to Ludwig von Mises, it is impossible for complementary factors of productions to come together spontaneously. "They need to be combined by the purposive efforts of men aiming at certain ends and motivated by the urge to improve their state of satisfaction" (Mises 249). Such "men" are entrepreneurs and the "purposive effort" is entrepreneurship. Entrepreneurs are constantly looking for the improved state of their satisfaction which comes as the reward to their "purposive effort", i.e., as the "profit". Therefore for Mises, "entrepreneur sees only profits". For Mises, any economic action is entrepreneurial as long as it "seeks to improve the future" and the entrepreneur forecasts the future market more accurately than do the others. The "felt uneasiness" (due to profit seeking behavior) on part of the actor causes him to improve the market situation and bring it to better "equilibrium than the prior state which was renounced" by him. In other words, entrepreneur can be seen "as disrupting an existing equilibrium" of evenly rotating economy and "increasing the radius of rotation into new equilibrium" (Wood 2005). The Misean entrepreneur acts for personal gain by cashing on the uncertain future. For Mises, "entrepreneurship is about men, their decisions, meanings and actions and not about things and tangible material objects. Goods, commodities, and wealth and all the other notion of conduct are not elements of nature; they are elements of human meaning and conduct" (Lachman 1976, pp57). In this sense Mises and Shackle share similar viewpoint about entrepreneurship.

The economic theory about entrepreneurship focuses in the function of an entrepreneur. The conclusion from all these theories can be best summed up in the twelve distinct functions that Hebert and Link (1988) have identified from various economic literatures about entrepreneur and entrepreneurship. The functions are as follows:

1. The entrepreneur is the person who assumes the risk associated with uncertainty.
2. The entrepreneur is the person who supplies financial capital.
3. The entrepreneur is an innovator.
4. The entrepreneur is a decision maker.
5. The entrepreneur is an industrial leader.
6. The entrepreneur is a manager or superintendent.
7. The entrepreneur is an organizer and coordinator of economic resources.
8. The entrepreneur is the owner of an enterprise.
9. The entrepreneur is an employer of factors of production.

10. The entrepreneur is a contractor.
11. The entrepreneur is an arbitrageur.
12. The entrepreneur is an allocator of resources among alternative uses.

Entrepreneurs and entrepreneurship defined in these popular and main streams economic theories of entrepreneurship are based on the observations in the Western developed countries setting. The motives for entrepreneurial activities in this context are different from that of the subsistence setting. The main stream entrepreneurial setting is representative of capital, resource and technology abundance setting. These definitions and deductions do not necessarily hold true for the entrepreneurs in subsistence setting where the motives for entrepreneurship are mostly for survival needs. According to Acs (2007) the main stream entrepreneurship arising from resource abundance setting are “opportunity based” whereas the subsistence setting entrepreneurship is “necessity based”. Opportunity entrepreneurship represents the voluntary nature of participation where the participant entrepreneur has luxury of making “active choice to start new enterprise based on the perception that an unexploited, or underexploited business opportunity exist”. Whereas, necessity based entrepreneurship reflects “the individual’s perception that such action presented the best option available for employment but not necessarily the preferred option”. Another distinction of the main stream entrepreneurship is that they are involved in sectors that contribute to the market via innovation and are aspired by high growth potential and new job creation. Whereas, the necessity based entrepreneurship seeks to exploit less resource and expertise demanding and immediate opportunities in the market which might have very less or no opportunity for growth and economy of scale. (Acs 2007)

According to Viswanathan the main stream entrepreneurs enjoying the luxury of abundant resources have exclusive focus on “wealth creation and competitive advantage” whereas the subsistence entrepreneurship is fundamentally about survival. The subsistence entrepreneurs therefore operate out of necessity and “focus the business on a possessed skills or resource with little regard to whether their business options really represented competitive differentiation in the market place”. Therefore it is likely that the economic theories of entrepreneurship deduced from the mainstream entrepreneurship could unravel very differently in subsistence setting. (Viswanathan 2014)

## **2.2 Psychological/Personality Trait Theories on Entrepreneurship**

Low and MacMillan (1988) refer to MacClelland’s (1967) work on “need for achievement”, an empirical study of 150 successful Michigan entrepreneurs by Collins et.al. (1976), and works by Moore and Unwalla (1964), Gasse (1982), Martin (1984), and Sexton and Bowman

(1985) and highlight correlations of psychological/personality-based traits with entrepreneurship phenomenon. Characteristics such as “need for achievement”, “initiative, assertiveness, efficiency orientation, systematic planning, and commitment to work contacts” are associated with successful entrepreneur. “Internal locus of control”: the belief that one can largely determine their fate through their own behavior is another characteristic that is associated with entrepreneurs. “A high risk-taking propensity”, “tolerance to ambiguity”, “a high need for autonomy, dominance, independence combined with a low need for support and conformity, and a capacity for endurance” were other characteristics found to distinguish entrepreneurs from others (Low and MacMillan 1988). Deakins and Freel add “creativity, innovation, need for autonomy, ambiguity tolerance, vision, and self-efficacy” to the list of the personality traits of the entrepreneur. (Deakins and Freel, 2009, 9-10)

Schumpeter (also discussed in the economic theory section) identifies that entrepreneurs have personality characteristics which separate them from general people. The characteristics are: “1) the desire for power and independence; 2) the will to succeed; and 3) the satisfaction of getting things done”. He also points out that money *per se* is not the ultimate driver for entrepreneurs and they are “certainly not economic men in the theoretical sense” (ed. Swedberg, 2000).

Austrian economist Israel Kirzner also emphasizes in the cognitive approach to define entrepreneurship. For him entrepreneurship is defined by the intrinsic stimuli of the individual that influence his behavior (Bendixen and Migliorini). “Creative alertness to hitherto undiscovered opportunities” is what distinguishes an entrepreneur from the others. He mentions that this “alertness” or hunch just like “learning” is spontaneous. It cannot be produced or improved upon. This state of mind is a part of human nature, by definition.” According to Krizner when one recognizes their “spontaneous alertness” it becomes a conscious knowledge that can be used as a “resource”. In this sense “entrepreneurship is a discovery process of an innate subconscious resource” (Gunning, 2002). Kirzner isolates entrepreneurs in the market by contrasting them with the so called “Robbinsian economizers” who represent the “the consumer saver, factor supplier, and hired manager behaving like robots, according to programs or algorithms” (Gunning 2004). Krizner’s entrepreneur has, “more than average, the ability to learn from mistakes (in the sense of perceiving the best opportunities). Exploiting profit opportunities, as opposed to discovering them, require some additional characteristics. However, exploitation is not the entrepreneurial act itself. Once a profit opportunity has been discovered, one can capture the associated profits by innovating, changing and creating. Hence, to be able to act upon profit opportunities adequately, requires additional qualities such as creativeness and

leadership" (Praag 1999) . Krizner's entrepreneurship is the arbitrage in the market economy that initiates and leads to market equilibrium just as the entrepreneurial element in individual decision making leads to more efficient personal allocation of resources (Gunning, 2002). For Kirzner entrepreneurship is mostly a personality trait of an individual and how it is utilized in creating economic benefits (Deakins and Freel, 2003).

Kets de Vries (1977) reviews the concept of entrepreneurship and empirical studies of entrepreneurial behavior pattern and identifies generalizable psychodynamic forces influencing entrepreneurship personality. These forces are based on entrepreneur's socio-economic-personal environmental turbulence. The forces are: "perception of rejection; high perception of control; anger, hostility and guilt; identity confusion (identification with the aggressor)". These forces act as inputs to trigger the "reactive mode" of an individual which makes them an entrepreneur. The "reactive mode" is characterized by "guilt-ridden rebelliousness; impulsivity; deviant behavior; interpersonal problems; non-acceptance of structure; difficulty with authority; and denial, projection, and reaction formation as defences" (Kets de Vries 1977, 34-57). The defiant and non-conformist behavior "precipitates a desire to start their own business, rather than operate within the regulations of a large organization" (Deakins and Freel, 2009).

Smith and Miner (1983) do a comparative study of entrepreneurs and managers to see difference in their psychological/personality traits. They found that entrepreneurs despite being "at the apex and functioning as CEOs of their organizations" posses very low managerial motivation. They found that "authoritative", "assertive", and "opportunistic entrepreneurs tend to lead the firm" and are likely to expand and move "their companies beyond the initial phase of their organizational life-cycle" compared to "craftsmanship" based entrepreneurs.

Stanworth and Curran (1977) identify three types of entrepreneurship identity based on psychological and personality traits, namely: the "artisan" identity, the "classical entrepreneur" identity, and the "manager" identity. The entrepreneur with "artisan" identity "centers around intrinsic satisfaction" such as "autonomy at work", "ability to pick people you work with", workplace status, and "satisfaction at producing a quality product backed with personal service". For them income from entrepreneurship is important but secondary to intrinsic satisfaction. The entrepreneur with "classic entrepreneur" identity has economic values prioritised to intrinsic satisfactions. The entrepreneur with "manager" identity is centered around "security", "social identity", and "recognition" from outsiders such as other businessmen (Stanworth and Curran 1977, 104).

A meta-analysis of Gartner (1985) identifies some individual characteristics that could be of value in describing entrepreneurs. These characteristics are: "need for achievement, locus of control, risk taking propensity, job satisfaction, previous work experience, entrepreneurial parents, age, and education" (Gartner 1985, p-699)

Waddell (1983) investigated a group of female entrepreneurs and found that they were higher in motivation for achievement, locus of internal control, and masculinity compared to female managers and secretaries. Masculinity in this context was associated with the stereotypical masculine gender-role such as autonomy, aggression, independency, and leadership (Bendixen & Migliorini 2006).

Nicolaou and Shane (2008) use quantitative genetics and molecular genetics to show that genetic factors might influence the likelihood that some individuals pursue entrepreneurial activity. They propose four complementary ways in which genetic factors may influence individual entrepreneurial behavior.

First, genes may affect chemical mechanisms in the brain to increase the likelihood that people will engage in entrepreneurial activity. Second, genes might predispose people to develop individual attributes, such as extraversion and internal locus of control, that affect the tendency of people to engage in entrepreneurial activity. Third, genes may make some people more sensitive than others to environmental stimuli that increase the likelihood of engaging in entrepreneurial activity. Fourth, genes may influence exposure to environments that are more favorable to entrepreneurship (Nicolaou and Shane, 2008, 1-22).

Testing for several operationalizations of entrepreneurship some studies have shown that "genetic factors account for 30%-50% of variability in entrepreneurial behavior and that this effect is partially mediated by personality traits and intentions". These results imply that entrepreneurship is pre-programmed in our DNA, however, these studies also acknowledge "role of idiosyncratic life experiences and other situational factors which, according to the data, influence behavior as much as genetic predispositions". Social learnings, networks, and culture are such external factors that influence the individual behavior (Kuechle, 2013,507-521).

Calvo and Garcia (2010) study the effects education, experience, locus of internal control, need for achievement and resilience on the established business owner's success for 800 Spanish entrepreneurs. They find that there is a positive and high correlation between the success of an enterprise and the education level, previous experience and resilience of the

entrepreneur. Similarly locus of internal control and need for achievement was also found to be positively correlated with the success of the enterprise (Calvo and Gracia, 2010, 263-268).

Filion (2011) survey entrepreneurship literature looking into the activities of entrepreneurs and their relevant characteristics associated with those activities. Their observation from many cases sums up how behavioral and characteristics of individuals are associated with their entrepreneurial behavior. However they also acknowledge that it is not possible to define the entrepreneur based on the characteristics of people who play entrepreneurial role and that characteristics can be used to refine and clarify aspects of a definition, but cannot be regarded as constituting its core. Their observation is presented below:

Table1 : Activities and characteristics often attributed to entrepreneurs (Filion 2011)

Activities	Characteristics
1. Learning	Experience of a sector; memorized information; use of feedback.
2. Choosing a sector	Interest; motivation; assessment of potential added value for the future.
3. Identifying a niche	Care; analytical capacities; precision; target.
4. Recognizing and developing an entrepreneurial opportunity	Originality; differentiation; creativity; intuition; initiative; culture that value innovation.
5. Visualizing projectively	Ability to dream realistically; conceptual skills; systemic thinking; anticipation; foresight; ability to set goals and objectives; visioning.
6. Managing risk	Thriftiness; security; conservatism; moderate risk-taker; ability to tolerate uncertainty and ambiguity; independence.
7. Designing (products, service, organization)	Imagination; problem-solving skills.
8. Committing to action	Self-confidence related to clearly defined identity; long-term commitment; hard-worker; energy; result-orientation; decision-making; passion; locus-of-control; determination; perseverance; tenacity.
9. Using resources	Resourcefulness; coordination; control.
10. Building relations systems	Networking skills; flexibility; empathy; listening and communication skills; use of mentors; vision.
11. Managing –sales negotiations; people-and delegating	Versatility; adaptability; capacity to design tasks; ability to trust.

12. Developing	Leadership; seeks challenges
----------------	------------------------------

The psychological/ personality trait approach implies that entrepreneurship is inherent quality and is available only to certain type of people. This further implies that “the supply of potential entrepreneurs is limited to a finite number of people” who have these inherent qualities. If entrepreneurship requires such inherent qualities then “there is little to be gained from direct interventions to encourage new entrepreneurs to start new businesses”. The interventions can only be directed into improving the infrastructures and environment (Deakins and Freel 2009, pp. 9-10). This idea counters the phenomenon of growing trend of incorporating entrepreneurship in academia and also its implementation in poverty alleviation works. On the other hand, it has also been observed that “there is as much difference among the entrepreneurs as between entrepreneurs and non-entrepreneurs” in their psychological/personality trait. Such empirical works that examine the demographic characteristics of entrepreneurs are also found to suffer from small sample sizes, non-comparability of the samples and static terms of references (Low and MacMillan 1988). Kets de Vries argues that many of these behavior focused studies “have focused exclusively on specific entrepreneurial sub-groups such as the high technology entrepreneur, or have concentrated on specific personality characteristics which might contribute to successfulness in company performance”. The diversity in test instruments also prevents or at least hampers the possibility of making more general comparison (Kets de Vries 1977, pp. 34-57). Therefore it might not be rational in an empirical research to frame entrepreneurs and entrepreneurship process based only on psychological/personality trait characteristic. Again, this covers only one dimension of the multifaceted entrepreneurship phenomenon.

Just like the economic theories of the entrepreneurship the psychological and personality trait theories are also based on observation of mainstream entrepreneurs who operate in resourceful environment. They have the luxury of choosing entrepreneurship from among other opportunities of employment (Acs 2007). For them entrepreneurship is a means for flourishing their individuality. Therefore individualistic characteristics such as rebelliousness, impulsivity, non-acceptance of structure, internal locus of control, autonomy at work etc are associated with the main stream entrepreneurs. The subsistence entrepreneurs on the other hand live in densely networked social communities where each other’s lives are intertwined quite heavily. Communal and societal values are greater in such settings. “Subsistence communities have very intense interpersonal relationships and affective commitments”. In absence of abundance resources, “economic and institutional mechanisms, subsistence entrepreneurs rely exclusively on these social commitments to sustain and stabilize their businesses”. Therefore more individualistic characteristics that have been defined in the psychological and personality trait theories of entrepreneurship

for the mainstream entrepreneurs might not apply for the subsistence entrepreneurs. (Vishwanathan 2014)

### 2.3 Contextualized Views on Entrepreneurship

Contextualized view of entrepreneurship is more comprehensive approach to building theory for entrepreneurship as compared to the above mentioned approaches. This approach is getting more recognition in entrepreneurship research especially in the context of developing countries. Proponents of contextualized view of entrepreneurship emphasize that “economic behavior can be better understood within its historical, temporal, institutional, spatial, and social contexts”. In this approach the importance of context is highlighted to understand “when, how, and why entrepreneurship happens and who becomes involved”. (Welter, 2010, 165-184)

Welter (2010) draws on research from former Soviet countries to highlight the importance of context in entrepreneurship. They define context as “circumstances, conditions, situations, or environments that are external to the respective phenomenon and enable or constrain it”. According to them “context simultaneously provides individuals with opportunities and sets boundaries for their actions”, i.e., entrepreneurs may experience it as “asset and liability”. They identify three major contexts that influence the entrepreneurial behavior of an individual: “the social context, the spatial context, and the institutional” *context*. The social context highlights the importance of household and family embeddedness in entrepreneurship. The social network provides “financial capital, information, potential employees, or access to clients, but also the emotional understanding, encouragement, and support that family and friends are able to offer”. The spatial context highlights on the connectedness and embeddedness of “social, societal, and geographical” factors and how they enhance and/or inhibit the entrepreneurial process. The institutional context “draws on the concept of formal and informal institutions as the rules of the game” in the entrepreneurial process. Formal institutions are “the political and economy related rules” whereas informal institutions are “norms and attitudes” in the society derived from prevailing religions, traditions, and culture about entrepreneurial behavior. These factors are prominent and especially important in the context of developing countries. Acknowledging the “situational and temporal boundaries” for entrepreneurship is very important in order to frame research questions and research design (Welter, 2010, 165-184).

Low and MacMillan explore various previous empirical researches and highlight that the phenomenon of entrepreneurship is multifaceted, multidimensional and “intertwined with a complex set of contiguous and overlapping constructs”. According to them there have been a “range of approaches available for entrepreneurship research”, but their “inability to agree upon common definitions” has hampered the entrepreneurial research progress. Therefore “some common ground is needed upon which to synthesize the insights of diverse approaches of inquiry”. They suggest contextualized view of entrepreneurship as one good approach to achieving this common ground in entrepreneurial research (Low and MacMillan 1988, pp.139-161).

Thornton (1999) investigates diverse literature and identifies entrepreneurship “as the creation of new organizations, which occurs as a context-dependent, social, and economic process”. Therefore, unlike traditional approach: psychological theories and economic theories, where entrepreneurship is studied as a universally applicable concept they propose more localized and contextualized approach. They suggest that “integrative frameworks from sociology, a social embeddedness perspective, ecological and institutional theories, and multilevel models be used to link supply and demand perspectives of entrepreneurship” (Thornton, 1999, 19-21).

Ripsas (1998) reviews the role of the entrepreneur in the history of economic and non-economic thoughts and conclude that there is no “agreed upon definition of what an entrepreneur does or is”. Deriving from their study of economic decision theory, sociological system theory, psychoanalytical research, and behavior studies they propose “interdisciplinary approach” to the development of entrepreneurship theory. Building on the concept of social system by sociologist Talcott Parsons (1951) and on work of Cauthorn (1989) Ripsas (1998) argue that “entrepreneurial function is integrated into a broader theory of social system and entrepreneurship emerges as a subsystem of action specializing in the integration or coordination of other functions necessary to the larger system of which it is part of” (Ripsas 1998). Luczak et al. (2010) conduct through literature review examining Hofstede’s model of national culture, network theory, social capital theory, and relationship marketing and argue that these factors are crucial determinants of entrepreneurial performance. Each social system evolves differently over time and provides unique context for entrepreneurship phenomenon. Therefore contextualized approach to understanding entrepreneurship should be implemented in the entrepreneurship empirical research.

Cope (2005) studies emergent empirical and conceptual work on the subject of entrepreneurship and establish that entrepreneurship is “an inherently dynamic phenomenon” and its study should extend beyond a focus on venture creation. It should

encompass “the entrepreneurial experience, that is, behaviors necessary in the operation of the firm, its performance, and the psychological and non-psychological outcomes resulting from firm ownership”. Further they argue that instead of defining “who an entrepreneur is” it is more productive to view entrepreneurship as a contextual process of “becoming” where the entrepreneur is constantly and continually “learning” and developing in relation to their business and wider environment, that is , their context. They highlight that key to entrepreneurship is the entrepreneur’s dynamic learning at different phases and processes of enterprising and their own characteristics and these are all contingent to the context (Cope 2005, pp. 373-397). According to Shane et al. entrepreneurship is not solely the result of individual factors such as motivation and cognitive abilities; external factors such as the status of economy, the availability of venture capital, the actions of competitors and government regulations also play a big role (Shane, Locke and Collins, 2003).

Harvey and Evans (1995) examine the entrepreneurial process relative to the career lifecycle of a potential entrepreneur and illustrate that entrepreneurship is a multifaceted and dynamic process. They show that there is no one set of skills and experience needed to become a successful entrepreneur, rather an array of past experience and skills are required. This “temporal dimension” of entrepreneurial process envelops the dynamic nature of environment in which the entrepreneur exists. Inherently unique nature of the environment, process, and event of entrepreneurship implies that its understanding demands a holistic analysis rather than a simplistic analysis of its individual elements.

In an attempt to define entrepreneurship Bruyat and Julien (2000) find that entrepreneurship is a complex and heterogeneous phenomenon and emphasize that “we will not understand the phenomenon of entrepreneurship if we do not consider the individual (the entrepreneur), the project, the environment and also the links between them over time”. In doing so, they highlight the importance of the environment or the context in entrepreneurial process.

Similarly, Gartner (1985) reviews a variety of entrepreneurship literature and points out that “the differences among entrepreneurs and among their ventures are as great as the variations between entrepreneurs and non-entrepreneurs”. Therefore it cannot be assumed that “all entrepreneurs and their ventures present a homogenous population”. The heterogeneity is due to the difference in “environmental, individual, organizational, and process” context of the entrepreneurship phenomenon. Gartner refers to a variety of empirical works done in each of the aforementioned heterogeneity factors and reports how they influence the entrepreneurial process (Gartner 1985, pp. 351-361). He documents that unique financial and economic environment (determined by venture capital availability,

accessibility of labor force, customers, and new markets), natural environment (availability of raw materials and resources), and social environment (governance, attitude of population, living conditions, supporting services, percentage of recent immigrants) influence significantly differently to new venture creation process (Bruno and Tyebjee 1982, Pennings 1980). At individual level he acknowledges the role of personality traits discussed in previous chapters in forming a new venture. Similarly, he documents that organizational structure and planning are unique for entrepreneurship of different sector. On the other hand, he defines entrepreneurship as “an activity or a function, i.e., a process, and not a specific individual or occupation” and claims that heterogeneity in entrepreneurship comes from the difference in how the entrepreneur locates a business opportunity, accumulates resources, produces and markets products and services, builds an organization, and responds to government and society (Gartner 1985, pp. 351-361). In essence, he suggests that entrepreneurship “depends” on the context and recommends a contextual framework that incorporates all these factors to be used in understanding the entrepreneurial process (Gartner 2008).

Fig: 2 Gartner's conceptual framework for describing the phenomenon of entrepreneurship

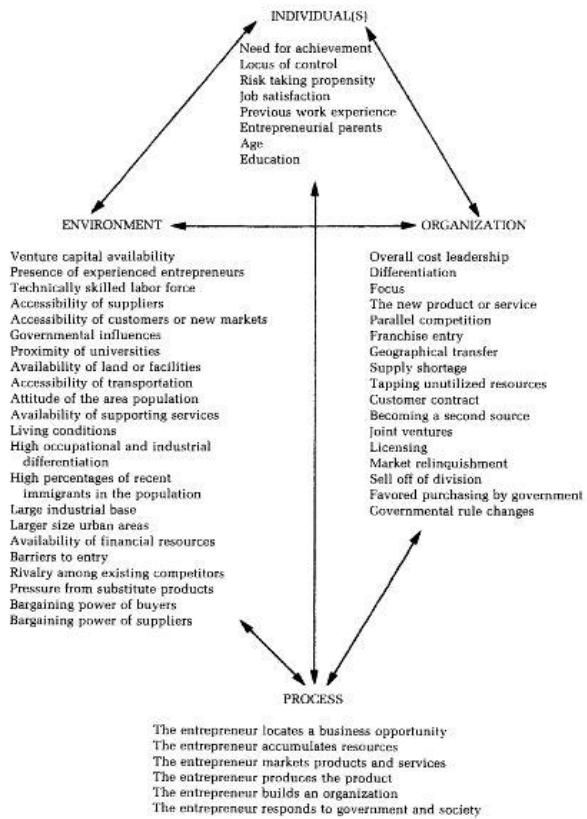


Figure 2. Variables in new venture creation.

## 2.4 The Theoretical Framework for Entrepreneurship

On the basis of these theories it can be concluded that in order to thoroughly understand entrepreneurship phenomenon a contextualized and holistic approach that incorporates all aspects of entrepreneurship should be taken. In order to represent the diverse aspects and their interconnectedness which give shape to entrepreneurship phenomenon the theoretical framework is represented as an ecosystem of these aspects. Based on theories studied above a general theoretical framework for entrepreneurship ecosystem has been presented here. The components of the framework are briefly described below.

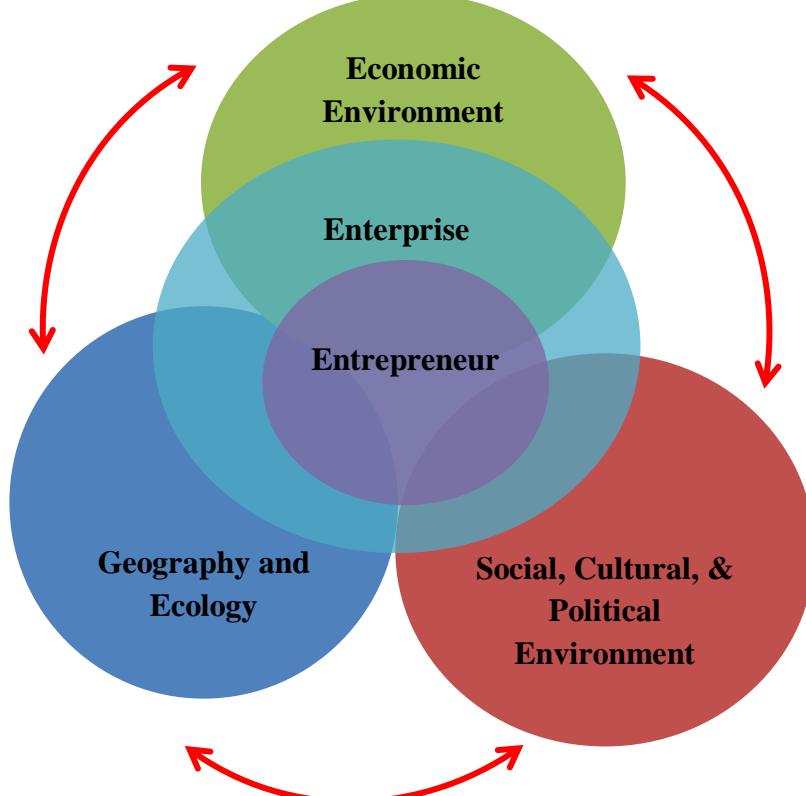


Figure 4: Theoretical Framework for Entrepreneurial Ecosystem

### 2.4.1 Geography and Ecology

Geography and ecology make the foundation of entrepreneurial ecosystem. They act as both opportunity and barrier for entrepreneurship. Geography and ecology provide entrepreneurs with natural capital which are primary resource for starting an enterprise. Geography and ecology also provide a basis for other aspects of entrepreneurial ecosystem such as social and cultural environment. On the other hand if the geography of a place consists of difficult terrain and other formations and the ecology is unfavorable it poses difficulties in creating infrastructures which are essential for economic activities and entrepreneurship (UPZRS 2008).

#### **2.4.2 Social, Cultural and Political Environment:**

Second to the Geography and Ecology in the entrepreneurship ecosystem is the social, cultural and political environment of a place. Social, cultural, and political environment determines the traditions, belief systems, work ethics, and economic policies which are crucial determinants of entrepreneurship activities of a place. Renowned sociologist and political economist Max Weber studies various prominent societies and their belief systems around the world and depicting their effect in economic activities and entrepreneurial behavior of people in his famous essays and books such as *The Protestant Ethic and the Spirit of Capitalism* (1991), *The Religion of China: Confucianism and Taoism* (1951), *The Religion of India: The Sociology of Hinduism and Buddhism* depicts the effect of social and cultural belief system in economic activities of people. He associates Protestant ethic (particularly from Calvinism) to the rise of capitalism and industriousness in Northern Europe. In the Protestants belief that “secular vocation” (what an individual does to earn his living) can and should be done to the glory of God with as much zeal as possible and wasteful use of hard earned money for luxuries, charities, and donations should be effectively forbidden and condemned as sin. Charities and donations were also considered to promote beggary. This kind of social status was perceived as laziness, and burden to fellow man and an insult to the God. Not working essentially meant that one failed to glorify God. A person and society with this attitude was more likely to be entrepreneurial, engage in trade, and accumulate wealth for investment (Weber 1991). On the other hand in the Chinese culture influenced by Confucianism where actively working for wealth creation meant unbecoming a proper Confucian and highest goal was to achieve a cultured status position in the society, capitalism and industriousness could not rise (Weber 1951). Similarly in the Indian culture influenced by Hinduism and Buddhism, where economic activity is seen as unimportant in the context of advancement of the soul, competitive mindset essential for entrepreneurship could not flourish. The caste system in Hinduism has also made it very difficult to advance in their social and economic status beyond their caste (Weber 1958).

Countries with more liberal and stable political environment have proven to be fertile ground for entrepreneurship and for efficiency of the economy and therefore for growth. Extreme political control and unstable political systems are associated with reduced growth, most importantly the role of unofficial economy such as entrepreneurship in transition, lack of effective law and order are also associated with similar effects in entrepreneurship and economy. (Johnson et al 1997)

#### **2.4.3 Economic Environment**

The third component of the entrepreneurship ecosystem is the economic environment of the context. It consists of the support systems required for the success of entrepreneurial activities such as the financial institutions, market setting, availability of the production and supply chain, customers and users of the products and services, macro -economic factors such as

competitive advantages, economic policies, labor force availability, unemployment rate etc (Giannetti and Simonov 2004). There is continuous need for capital in entrepreneurship process. For being capable of starting an enterprise, and for scaling it up capital is essential. People at the subsistence setting do not have disposable income and savings that can be spent for any of the aforementioned stages of entrepreneurship. Therefore there has to be some kind of financial institutions such as commercial banks, agricultural banks, development banks, and micro credit cooperatives to provide funding for the enterprise. Most often the poor ones do not have any property that can serve as collateral and make them bankable. Therefore there is need for special schemes to finance their entrepreneurial activities. Entrepreneurship activities are often contingent to presence of such financial institutes (MEDEP 2010). Presence of convenient production and supply chain, a structured market place for customers helps to facilitate entrepreneurial activities. In the case of subsistence setting economic policies favorable for self-employed entrepreneurs such as tax exemptions, subsidies for starting enterprises and presence of programs that facilitate entrepreneurship by providing trainings and mentorship are good for promoting entrepreneurship (Giannetti and Simonov 2004).

#### **2.4.4 Enterprise**

The enterprise makes the fourth layer of the entrepreneurship ecosystem. Enterprises at subsistence setting are mostly run by one person entrepreneur and the characteristics of entrepreneur are usually the characteristic of the enterprises as well. However the characteristic of the enterprise such as business model and strategy, service providing as opposed to product manufacturing, technology intensive as opposed to labor intensive, demand for technical skills, ability for differentiation with the competitors, use of local raw material as opposed to external raw material, local target market as opposed to external target market are crucial determinant for the success of entrepreneurship. (MEDEP, UNDP 2010)

#### **2.4.5 Entrepreneur**

The last component of the entrepreneurship ecosystem is the entrepreneur. How well an entrepreneur can supply the characteristics to execute their expected functions will determine the fate of their enterprise. Characteristics of a conventional entrepreneur are that they should be highly motivated and committed to their work and have a “need for achievement”. They should be “assertive, efficient, systematic” in their work while maintaining constant “innovativeness” in the process and deliverable. A successful conventional entrepreneur also has “internal locus of control, high risk taking propensity, and tolerance to ambiguity”. They have high need for “dominance and independence which is complemented with low need for support and conformity, and a capacity for endurance” (Low and MacMillan 1988). Entrepreneurs should not just have a knack for perceiving the best opportunities but also should be able to create new opportunities themselves. Hence, they should have the qualities of creativeness and leadership (Praag 1999). Education is associated with individual's

interpersonal skills and networking ability therefore it is also a desirable asset to have for an entrepreneur (Calvo and Garvia 2010, Gartner 1985). Knowledge of basic mathematics and book keeping is especially important for small scale entrepreneurs since they have to keep track of their business finance on their own. An entrepreneur should indeed be a dynamic person who should be able to assume different function at different stages of their enterprise. They should be the “supplier of financial capital, manager, organizer and coordinator of economic resources, employer of factor of production, and a marketer” simultaneously (Herbert and Link 1998). As we discussed in various theories of entrepreneurship, the mainstream entrepreneurs are mostly driven by individualistic characteristics which might not apply to the subsistence entrepreneurs who operate in a very closely linked social structure and values. Working together, helping each other, selling and buying from each other are more pertinent characteristic to the subsistence entrepreneurs (Vishwanathan 2014) . However, as their enterprise grows and the market they are operating becomes more systematic and competitive individualistic characteristic of the entrepreneurs become more relevant.

The theoretical framework described above is a general theoretical framework for entrepreneurial ecosystem mostly based on the theories that describe the mainstream entrepreneurship. As discussed in the literature review the theories of entrepreneurship prepared based on one kind of setting cannot necessarily be generalized to the others. Therefore in the following chapter the subsistence setting of Nepal has been analyzed and based on its contextual variables theoretical framework for Nepalese entrepreneurial ecosystem has been prepared.

## **2.5 Subsistence Setting of Nepal and Contextual Variables**

Despite being a small country Nepal is very diverse in terms of geography and socio-cultural settings. The country is merely a 890 KM by 180 KM rectangle stretched east west in the heart of South Asia. The elevation of the country is 60 meters from the sea level in the southern plain and reaches to the top of the world, Mt. Everest (8848 meters), on the north. This drastic change in elevation within the width of 180 KM means there are all kinds of climate and weather variation throughout the country. This results in different types of agricultural practices in different parts of the country which has direct impact on micro and macro economy. Along the north to south transect, Nepal can be divided into three regions: Mountains, Hill and Terai Regions. The Mountain and Hill region make the northern border to China. They comprise of the green hills, rivers, valleys, and snowy mountains and cover 80 % of the total area of the country. The hills and mountains are very difficult vertical terrains and pose as a natural barrier for any kind of infrastructure development and production. The Terai region lies between the Hill Region and the southern Indian border and includes the arable Gangetic Plains, tropical forest and perennial rivers. In terms of infrastructure development and ease of transportation, communication, productivity, and land rent Terai region is relatively

better off and lately it has been attracting a lot of migration from the hill and mountain region. The variation in the geographic structure and climate creates a lot of variation in resources availability in different part of the country. They play a big role in determining the type of economic activity done in different geographical region. Some see this variation as a dragging force for development of Nepal whereas others call it an opportunity. The location of economic hubs is also determined by the geography of a place. Connectivity and accessibility to such hubs is crucial for economic and entrepreneurial activities of surrounding areas and also for the nature of economic activities. Out of 26 million people in Nepal 20 percent of them live in the urban area, that is, the economic hubs. This population is dependent in manufacturing, service and other non-agricultural sector. The remaining 80 percent living in the rural area are dependent on subsistence farming for livelihoods. 25% of the Nepalese live under the poverty line and twice as many consume less than twice the bare minimum that defines the boundary with poverty. 90 % of those under poverty line live in the rural areas. There is a huge variation in terms of accessibility to education, technology, infrastructures, and financial services such as the banks and micro-credit organizations among those rural and urban areas. Therefore the geographical variation of Nepal plays a big role in entrepreneurial activities of the poor ones (World Bank 2014, IFAD 2013, NPHC 2011, Krugman 1998).

Socio-cultural diversity of Nepal is another contextual factor that influences the Nepalese economy. Currently there are 125 different casts and ethnic groups in Nepal who share 123 different spoken languages and 10 different types of religions. Although the constitution ensures equal rights to every citizen the social and economic disparity among different castes and ethnic groups are very evident. Poverty is concentrated in specific ethnic, caste and marginalized groups, particularly those of the lowest caste (*dalits*), indigenous peoples (*janajatis*) and women. The marginalized citizens face exclusion from social, cultural, and political happenings in the society, particularly in those where they have to participate with the higher castes. The higher castes take the most benefit of such social, cultural and political settings. As the result of low participation the marginalized groups possess the least awareness of different intervention of social-economic uplift and also receive the least benefit out of them. These groups have the lowest per capita income, expenditure, savings and investment. They are ranked the lowest in the HDI index among all the Nepalese (ILO Nepal 2005). Historically land ownership in Nepal was concentrated in feudal system under Monarchy and the marginalized groups received the least possible share. Despite various land reform programs the poor rural families still have very limited access to land. Almost 70 % of household have holdings of less than 1 hectare of land and many depend on plots that are too small to meet their subsistence requirements. Due to lack of advanced knowledge in agriculture and inability afford modern tools marginalized people are not able to use agriculture as a means for entrepreneurship. Different casts and ethnic groups also have their own beliefs,

prejudices, and discrimination systems about the nature of work they can do, who they should interact with, and how things should be done (World Bank 2014, IFAD 2013, NPHC 201). Gender based discrimination and inequality is another important aspect of the Nepalese social structure that plays a big role in determining entrepreneurial activities in the country.

Traditionally Nepal is a patriarchal society and women have a very little say in the household decisions. Even among the poorest of the poor women are relatively more deprived than others (World Bank 1991, Tuladhar 1996). These factors play a significant role in economic and entrepreneurial activity of an individual in the society.

Nepal is a landlocked country sharing its border with economic giants China and India. This has big influence in both the macro and micro economic activities in Nepal. Identifying the competitive advantage for local entrepreneurs in order to start an enterprise becomes more daunting task when the neighboring countries are producing everything at much cheaper price. Often people find it easier to go abroad to India and find a job there instead of pursuing entrepreneurship. During the more than a decade long civil war with the Maoist that finished in 2006 the rate of migration abroad for work increased. The phenomenon still continues and has become a trend in Nepalese society that the productive members of rural households migrate to foreign countries in search of jobs. Almost half of Nepalese households have been estimated to have at least one member working abroad or have a returnee. In fact, despite being a small country, Nepal is one of the world's highest recipients of remittances. About 25% of Nepal's GDP comes from remittance. This trend has had impact in the demographic composition of the rural households. It has also increased demand for the service sector while decreasing investment in agriculture and production sector locally. Since the productive youths have move abroad the rural villages are left with population of sick, disabled, and women. This manpower and brain drain and resulting change in demographic composition has significantly influenced the entrepreneurial preference of the people (World Bank 2014, IFAD 2013).

Nepal has gone through a lot of political upheavals and instability in the last two and half decades. In this short period it has transitioned from being an autocratic monarchy to constitutional monarchy to democratic republic at the expense two revolutionary mass movements and one decade long civil war that took lives of more than 10000 civilians. In this short period 23 different governments have ruled the country. The political instability is linked with poor economic growth, corruption, poor governance, displacement of people, internal and external migration, and change in demographic composition which are major determinants of entrepreneurship activities among the citizens in the subsistence setting (Koirala et. al. 2005).

## 2.6 The Theoretical Framework for Entrepreneurship Ecosystem in Nepalese Subsistence Setting

Based on the general theoretical framework, the observation from the subsistence setting of Nepal and its contextual variables a theoretical framework for Nepalese subsistence entrepreneurship ecosystem is mapped and presented in the following figures. Each elements of the framework is briefly described below:

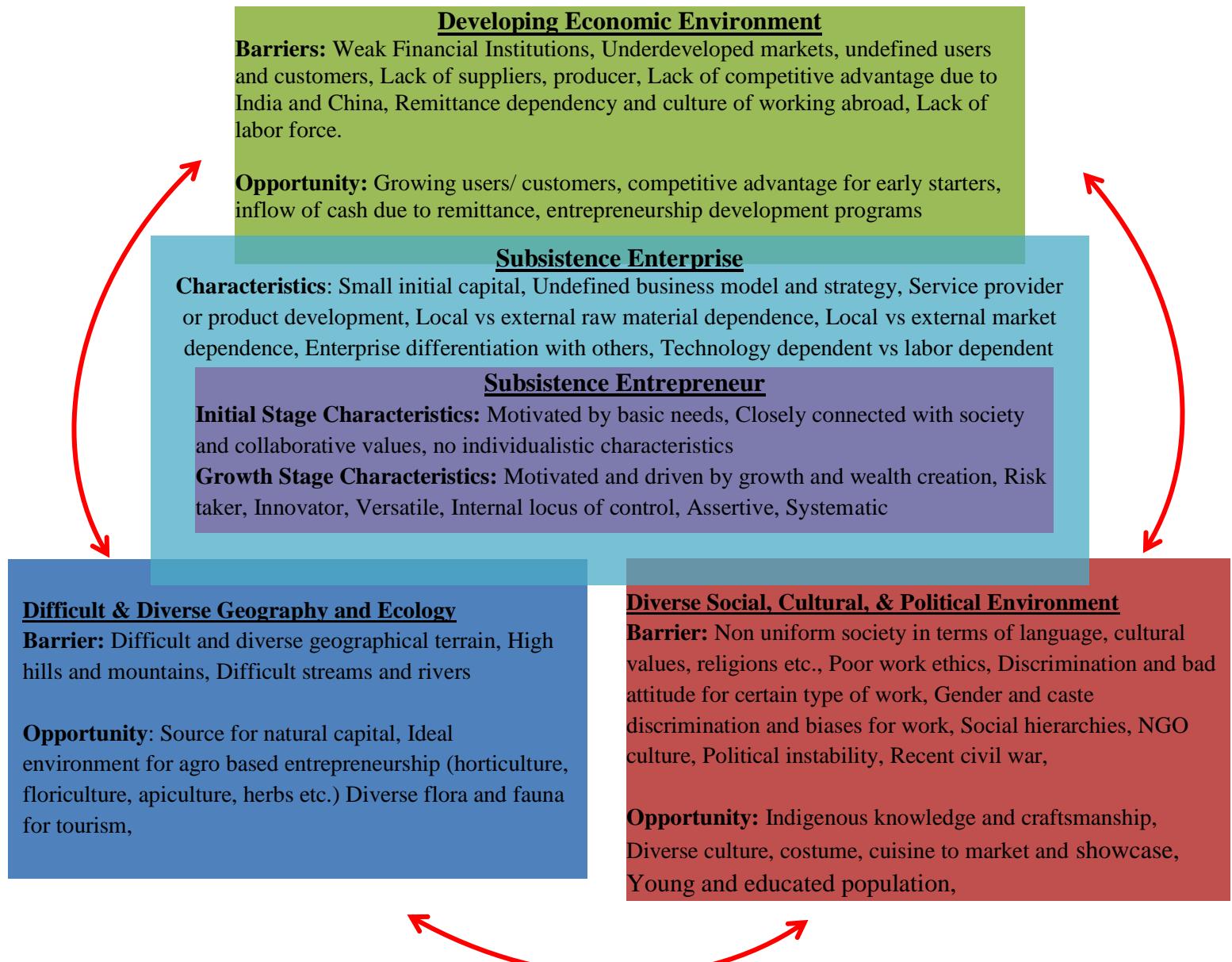


Figure 4: Theoretical Framework for Entrepreneurship Ecosystem in Nepalese Subsistence Setting

### **2.6.1 Difficult and Diverse Geography and Ecology of Nepal:**

The geography and ecology of Nepal makes the foundation of the entrepreneurship ecosystem for its subsistence setting. The geographical and ecological diversity acts both as a barrier for entrepreneurial activities and as an opportunity. The difficult terrain creates difficulties in production (agricultural and non-agricultural sector), transportation, and communication. The rugged land structure has resulted in the development of infrastructures only in some convenient pocket areas and left most of the country as rural area. Most of the subsistence population is concentrated in such areas. With very poor literacy rate and no disposable income, entrepreneurship is a daunting task for them. Geographical diversity has also been linked with the political conflict, internal and external migration and change in demographic composition across different regions of the nation (Do et. al. 2009). Difficult mountains and rivers of Nepal have served as natural barriers for accessibility among different societies, as the result many isolated and unique societies have existed throughout the country. This variation has often been seen as a challenge for better governance and resource allocation required for healthy economic activities. The importance of such diversity in entrepreneurship is discussed in the following section. Being an agricultural country where until the end of 20<sup>th</sup> century almost 90 % of the population found their livelihood from subsistence agriculture, entrepreneurship behavior is very strictly dependent on geographical and ecological factor affecting agriculture. Most of Nepalese agriculture sector is still dependent on primitive and traditional practices. Due to lack of irrigation infrastructure the productivity is highly dependent on seasonal monsoon rain. Generally, major staple crop, rice, is planted during the first month of summer monsoon (June-July) and is harvested in about 4 months. Second plantation is done during the first month of winter monsoon (December-January) and is harvested in next 3-4 months. For the subsistence farmers the period between the plantation and harvesting and the dry seasons provides a window for entrepreneurial opportunity. With minimal innovation and guidance existing primitive agriculture practices coupled with diverse geography and ecology provide opportunity for multitude of agro based entrepreneurship. Diverse geography and ecology also means a wide range of natural capital for entrepreneurial activities for non-agricultural sector. Numerous rivers have huge potential for hydroelectricity and rich diversity in geography and ecology is also a boon for tourism sector (UPZRS 2008).

### **2.6.2 Diverse Social, Cultural and Political Environment:**

The second layer of the subsistence entrepreneurship ecosystem in Nepal is comprised of its diverse social, cultural and political environment. Multitudes of ethnic groups, diversity of castes, languages, religions and associated belief system and social structure creates a unique economic and entrepreneurial context in Nepal. Beliefs and social values determine nature of the acceptable businesses and enterprises in Nepalese society. They are also the determinants of the work ethics and attitude of the individuals and the society as a whole for entrepreneurial

behavior. For example, in the Nepalese society jobs such as metal and leather craftsmanship, carpentry, pottery, farming animals such as pigs and chicken, and jobs related with meat products are associated with the lower castes. These caste specific special skills can become a source of entrepreneurship for certain group of people in the society whereas others will not prefer to practice it as a source of income. The jobs that involve manual work are frowned upon by the society. The “deep structural” trends and habits that have been in the society for ages produce very rigid habits on people which are very difficult to change. Innovations and novelties essential for entrepreneurial behavior are difficult to nurture in such population with rigid beliefs (Geels 2002). The Hindu belief system of fatalism and *karma*: “that one has no personal control over one’s life circumstances, which are determined through a divine external agency” or the events of previous life is deeply ingrained in Nepalese society. This belief system has had detrimental effect on the work ethic and achievement motivation which are keys to entrepreneurial behavior. It has also marred the “sense of time, in particular the concept of planning, orientation to the future, sense of causality, human dignity and punctuality”. Traditionally, fatalism induces laziness in the psyche of Nepalese society. Fatalism is also highly associated with the various forms of dependency in the social system, such as the lower castes and ethnic groups accepting their dependency on higher caste, and the country as a whole being dependent on foreign aid for its development activities (Bista 1991). Since facilitated entrepreneurship program in Nepal are mostly implemented through government and NGOs programs funded by foreign aid, dependency is observed as a hindrance in all level of the program implementation.

Political instability of the country for last two and half decades that brought two peoples’ revolutions and one civil war deeply shook the social structure of Nepal. Citizens at the subsistence setting have been the most affected ones because of this political instability. The civil war concentrated in the rural part of the country and destroyed most of the infrastructures and government support systems present there. It caused internal and external migration and brought significant change in demographic composition of the society. Most of the youth fearing the consequences of the war fled away and villages were left with women and elderly people. The trend of migration among the youth that started during the civil war still continues leaving serious impact in economic activities in the Nepalese society. On the other hand Nepalese population comprises mostly of the youth with higher literacy rate, with many unexploited areas in business and entrepreneurship the youth have a good prospectus in entrepreneurship if they chose to stay in the country. The cultural diversity that provides a multitude of language, costume, cuisine can be source of entrepreneurship with a bit of creativity and marketing skills (MEDEP 2010).

### **2.6.3 Developing Economic Environment:**

The third aspect of the entrepreneurship ecosystem of the subsistence setting of Nepal is its developing economic environment. Components of the economic environment as barriers and opportunities for subsistence entrepreneurship in Nepal are discussed here. Need for capital is the crucial determinant of the entrepreneurship process especially for the subsistence entrepreneurs who do not have a good source of income and/or property. In order to support such entrepreneurs there are institutions such as Micro Enterprise Development Program, Department of Cottage and Small Industries, Youth Self Employment Program, Sana Kisan Bikas Bank (Small Farmers Development Bank) which are some government funded programs in Nepal.

Being a landlocked country bordering competitive economies of China and India there are very few areas with comparative advantage for the entrepreneurs of Nepal. Most of the times it is cheaper to import products from these countries than to produce them locally. Nepal's comparative advantage is confined on labor and resource intensive industries such as hydropower, tourism, carpets, some yarns and textiles, and agro-processing (vegetables, spices and herbs, tea, honey, flower, coffee, ginger, and leather products) (Pant and Panta 2009). These restrictions directly influence the entrepreneurial potentials even at the subsistence level. Lack of comparative advantage in production sector is one of the reasons why more and more Nepalese from subsistence and non-subsistence setting alike are inclined towards migrating overseas for finding a job. This creates a shortage of active manpower for production oriented entrepreneurship in the country. For facilitated enterprise development programs lack of such manpower is a hindrance for the success of the program. However for an individual who chooses to be an entrepreneur over going abroad it is means less competition for their enterprise within their locality. On the other hand increasing remittances received from overseas makes service sector more lucrative and creates windows of opportunities for new service based entrepreneurship (Acosta et al., 2009).

Market is another key element of economic environment. It is in the market that an entrepreneur engages in exchanges of products and service for expected profit (or unexpected loss) (Herbert and Link 1989). Activities of the market place provide windows of opportunities for doing business to an entrepreneur. It is also a place where shrewd entrepreneur innovates to create demand from the perceived needs of users and customers in order to harvest profits (Geels 2002). Entrepreneurs also get the raw materials and other accessories required in their production process from a market place. Their network with producer, suppliers, wholesalers and retailers are key determinant for the success of their entrepreneurship. Access to market place local or non local is therefore a crucial determinant for entrepreneurial activity. Given the limited scope and resources entrepreneurs at the subsistence setting have, local markets are

more important for them. It not just ensures convenient access to essential raw materials and other supplies but also ensures quicker transaction of their sales and therefore profit which they can utilize for their livelihood. Distant market requires more time, resources and advances skills for making business transaction whether it is purchasing raw materials or sales of their products thereby diminishing their competitive advantage and attractiveness of entrepreneurship.

#### **2.6.4 Subsistence Enterprise:**

The enterprise makes the fourth layer of the subsistence setting entrepreneurship ecosystem. The Nepalese subsistence setting enterprises are mostly run by one person entrepreneur, usually the family head of the household. The characteristics of the entrepreneur and their household are usually the characteristic of the enterprises as well. The enterprises are startups with very small initial capital often provided by an external agency such as an NGO or microfinance. They do not have defined business model and strategy. The longevity and profitability of these enterprises are contingent to whether they are local resource and raw material dependent or are dependent on external materials. Business of Local resource exhaustive enterprises such as herbs, crops, fruits, and vegetable processing enterprises is less elastic to the changes in the external market and incur less production cost making them more profitable compared to enterprises dependent on imported raw materials such as fabrics, soap, scent, and incense manufacturing enterprises. The scalability and profitability of the enterprise is also dependent on whether it is service providing or product manufacturing and technology intensive or labor intensive or both. Labor intensive business are usually easier to scale up because of easier availability of cheap labor such as handicraft manufacturing, improved farming as opposed to higher cost required for technology intensive enterprise such as herb processing, metal crafting etc. Dependence of the enterprise in local market as opposed to distant market also affects the enterprises' success. Since the entrepreneurs are usually less inept with advanced marketing skills if they have their business less dependent on distant market they are more likely to have stable business. More distant the market lesser they have the competitive advantage and skills to deal with it. If the enterprises are easier to replicate then their ability to differentiate themselves from others is crucial for their sustainability.

(MEDEP, UNDP 2010)

#### **2.6.5 Subsistence Entrepreneur:**

The central component of the subsistence setting entrepreneurship ecosystem is the entrepreneur. The Nepalese subsistence entrepreneurs are usually the household head male members. If the household head male have migrated abroad for job or are otherwise employed then the female household head take leadership in entrepreneurship. Often both men and women household heads collectively run the enterprise (Bushell 2008). The Nepalese subsistence entrepreneurs are characterized with very less or no education. They have lack of

asset and capital enough to spend on entrepreneurial activity. Before starting the entrepreneurship they are mostly dependent on subsistence agriculture for their livelihood. Lacking enough arable land and proper agricultural practices often the production is not enough for the survival and they have to work on rent as manual labor for others in agriculture or construction works. The aspiring entrepreneurs of the subsistence setting also mostly lack technical skills for starting an enterprise (MEDEP 2010). The driving force for the entrepreneurs in the Nepalese subsistence setting, in the beginning of their entrepreneurship process, is the need for fulfilling the basic requirements of their families. Therefore the characteristics of a conventional entrepreneur such as “being assertive, having internal locus of control, needing independence with low need for support and conformity from others, inclination for high risk and tolerance to ambiguity are not applicable to the subsistence entrepreneur (Low and MacMillan 1988). The subsistence entrepreneur is not driven by the higher level motivation for “achievement and recognition for self”. At subsistence level, Nepalese community members are used to helping each other in their household and societal affairs. Collaboration and cooperation, both due to lack of resources at individual level and as a part of their culture is how they operate in the society. There are numerous cooperatives in each village and towns formed mainly to cater to the financial and other societal needs of the subsistence citizen (MEDEP 2010). Therefore individualistic characteristics are not necessarily the characteristics of the Nepalese subsistence entrepreneur during the beginning of their enterprises.

The theoretical framework suggests that the entrepreneurship phenomenon in the subsistence setting of Nepal is contingent to a wide range of variables. In the next chapter I will describe how I have conducted the research to explore the ground reality of the entrepreneurship phenomenon in Nepalese subsistence setting.

### **3 RESEARCH STRATGY: A CASE WITH MULTIPLE CASES**

In this chapter I will describe the process and rational behind the research method. I will explain the procedure of data collection and its limitation. I will conclude the chapter by explaining the date analysis method.

#### **3.1 Research Method**

The main interest of this thesis is to understand how entrepreneurship evolves in the subsistence setting of Nepal. The research questions are *1) what factors should be considered when a government or other agency plan to facilitate entrepreneurship in subsistence setting. And 2) what are the potential bottlenecks of such facilitated entrepreneurship development programs?* These questions demand qualitative answers and therefore I will use a qualitative research approach in my thesis. In answering these questions a better understanding of the

context of the entrepreneurship phenomenon is expected. My qualitative research should therefore have exploratory purpose. Instead of providing the causal relationship between different variables, exploratory research aims at identifying key issues and variables of a phenomenon.

The process of finding answers to these "how" and "what" questions is exploratory in nature. In answering these questions a better understanding of the context of the phenomenon at study is expected. Exploratory research identifies, in detail, key issues and variables of the phenomenon (not their causal relationship) to answer these questions (Yin 2003). According to Yin when the research is exploratory in nature it can have no proposition in the beginning but should have a purpose and a criterion by which the exploration can be judged successfully. In this thesis the research questions set a clear purpose for the research and the theoretical framework serve as basis for judging the success of the exploration.

In order to capture the essence of complexity of the context influencing the entrepreneurial phenomenon, constructivism will be the best approach for this research. "Constructivism holds that truth is a particular belief system held in a particular context. Like critical theory, constructivism inquires about the ideologies and values that lie behind a finding so that reality actually consists of "multiple realities" that people have in their minds (Healey & Perry 2000, 120). These "multiple realities" exist for all different layers of entrepreneurship environment depicted in the theoretical framework. Perception and understanding of the entrepreneurs about the complexity of these levels will be vital in the constructionist approach.

The research will have inductive approach in terms of building any proposition or theory. An inductive approach starts by looking at the focus of research (the organization, a business problem, an economic issue etc) and through comprehensive investigation aims to generate theory from the research (Greener 2008). This bottom up approach of theory building in this "research will begin as closely as possible to the ideal of no theory under consideration and no hypotheses to test. Admittedly, it is impossible to achieve this ideal of a clean theoretical slate. Nonetheless, attempting to approach this ideal is important because preordained theoretical perspectives or propositions may bias and limit the findings". Thus the research problem has been formulated, and some potentially important variables have been identified from the literature review and depicted in the theoretical framework. On the outset of the research process, however, the correlation and/or the causality among the variables will not be the part of the thinking process. In this sense, I have created a loose theoretical framework which with the help of date will be reshaped to create a robust theory. (Eisenhardt 1989, 356)

### 3.1.1. A case with multiple cases as a research strategy

Intuitively, the best strategy to understand how entrepreneurship evolves in the subsistence setting of Nepal is to study the entrepreneurs and their entrepreneurial journey in that setting. The best way for me to reach out to these entrepreneurs in Nepal was through the Government of Nepal and UNDP's signature Micro-Enterprise Development Program (MEDEP). Working in 45 out of 75 districts of Nepal MEDEP has access to more than 65000 micro entrepreneurs (Dubson 2013). During the summer of 2013 I got an opportunity to conduct a policy research about enhancing the impact of the Common Facility Centers (CFC) of MEDEP. A Common Facility Center is a place established by MEDEP for the poorest ones where they can get together and share the building space and relevant technology to utilize their entrepreneurial skills to produce goods or provide services. MEDEP's Enterprise Development Facilitators (EDFs) and other enterprise experts teach the entrepreneurs with necessary technical skills and basic business skills for running the enterprise on their own. In other words CFCs are small entrepreneur incubation centers targeted to the people of subsistence setting in Nepal (MEDEP 2010). In the three month long policy research assignment I had a chance to conduct field visits to several of such incubation centers and interview affiliated entrepreneurs in two districts of Nepal, namely Parbat and Surkhet (See appendix 3). Altogether twelve CFCs, six from each district, were visited for the purpose. The data from the field visits is used for empirical analysis of this thesis. Therefore, in this research I will be using MEDEP's subsistence entrepreneurs as a case that is representative of the subsistence setting entrepreneurs of Nepal.

A system map of the case study is presented below:

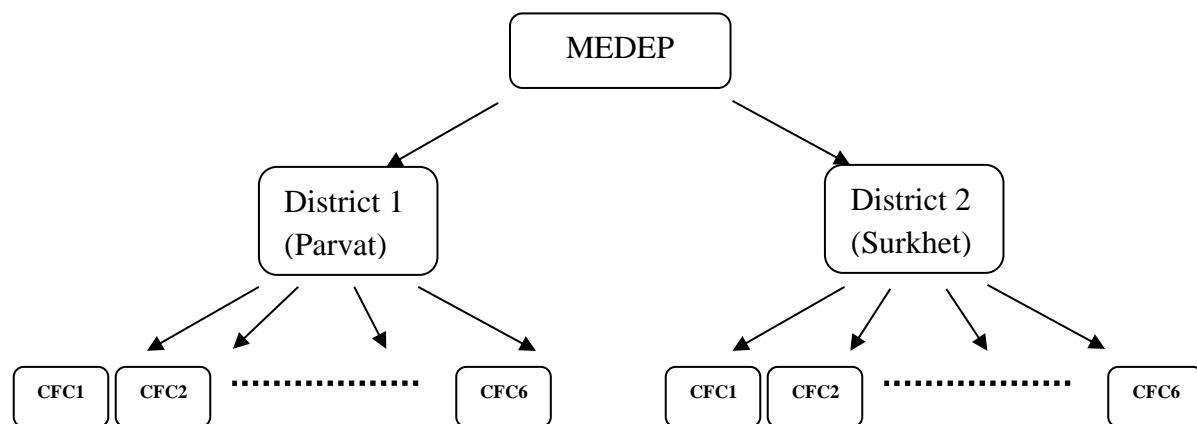


Figure 5: A system map of the case study is presented below:

For researches such as this which are interested in finding out the process of a phenomenon, i.e. are exploratory in nature, case study is preferred. Case study is also preferred when the research require no control of behavioral events of the participants being studied. Additionally,

case study is also recommended for studies that have focus on contemporary as opposed to historical events (Yin 2003). My research questions have these characteristics; therefore using case study as the research method is justified for this thesis.

In a bigger picture, this research is a single case study of the entrepreneurial phenomenon among the entrepreneurs of the MEDEP CFCs in Nepal. However it is important to note that embedded within the bigger case are two unique cases representing two districts within each of which there are six different cases of CFCs. Due to unique socio-cultural and geographical setting of these districts the distinction is important. Different scholars have contrasting opinion about using multiple case studies as a research method. According to Eisenhardt (1991) using multiple cases in research adds validity to the theory or proposition that will be generated because it helps in bringing diverse observations and triangulation (Eisenhardt 1989). Dyre and Wilkins (1991) on the other hand argue against this by saying that “studying more cases loses the essence of the case study: the careful study of a single case that leads researchers to see new theoretical relationship and question old ones”. However, as my research will study two districts as “mini cases” rather than “comparative cases”, it will include both the advantages of Eisenhardt’s emphasis on the use of diverse observations from multiple cases and that of Dyre and Wilkin’s emphasis on the classical approach of in depth study of one case.

Since my thesis aims at creating “a thick, holistic, and contextualized” understanding of the entrepreneurs and entrepreneurship process, my research will take intensive case study approach. Intensive case study approach, also called as the classical case study approach is preferred as a theoretically informed and capable approach for developing theory. Intensive case study aims at creating descriptions that is able to crystallize the reasons behind the rich and multifaceted details of the case which help to make the meanings clear. Intensive case study helps to explore the subject’s “economic, social, cultural, technological, historical, and physical setting”. (Erriksson and Kovalainen 2008 p. 119-120, Dyre and Wilkins 1991)

### **3.1.2. Data Collection and Management**

Interviews with the entrepreneurs from the CFCs were major source data in this research. Enterprise Development Facilitators (EDF) and Micro-Enterprise Specialists (MES) from relevant districts and central office of MEDEP are also interviewed as the source of primary data. The purpose of interviewing is to find out what is in and on someone else’s mind. The purpose is not to put things in someone’s mind but to access the perspective of the person being interviewed. Interviewing people helps to find out from them those things we cannot directly observe (Patton 1990). As a researcher we don’t have the “tabula rasa” state of mind. The mindset that we have is a byproduct of our conditionings and the resulting preconceived notions about the

research context makes the observational process blurry. To avoid this biasness interviewing the people who have actually experienced the process is very important.

"We cannot observe feelings, thoughts, and intentions. We cannot observe behaviors that took place at some previous point in time. We cannot observe how people have organized the world and the meaning they attach to what goes on in the world. We have to ask people questions about those things. Thus the purpose of interviewing then is to allow us to enter the other person's perspective. Qualitative interviewing assumes that the perspective of others is meaningful, knowable, and able to be made explicit". (Patton 1990, pp.277)

Simply explaining, it makes sense to ask and confer with the people in the matters on which their involvement is crucial. In this research, since the purpose is to understand the entrepreneurship phenomenon of which the entrepreneurs are the central actor, it is crucial to get first hand insight from them through interviews.

With consultation from the MEDEP officials in the central office in Kathmandu 2 districts were selected for the field visit and data collection. Owing to very limited financial resources and short time frame of only about three months of summer available for completion of the research assignment only 2 out of 45 program districts were selected for the field visit. Parvat district from hilly region of Mid-Western Development Region was selected and Surkhet district from the inner plains of Western Development Region was selected. These districts were chosen because they represent different social, economic and geographic regions of Nepal. The district officials of MEDEP were informed beforehand to schedule an interview with the entrepreneurs of the CFCs. Entrepreneurs from 6 CFCs from each districts were available for the interviews. In order to capture a wholesome picture of the entrepreneurship environment CFCs with diverse purpose and function were selected from each district. Ten days were required in each district for the completion of the field visits.

Since each CFC had multiple number of entrepreneurs affiliated with them, focus group interview method was used to harvest the data from them. Focus group interview method was found to be more time and resource efficient given the constraints of this research. A focus group is "group of individuals selected and assembled by researchers to discuss and comment on, from personal experience, the topic that is the subject of research" (Powell and Signal 1996, pp.499). In 'a focus group interview' unlike in 'a group interview' the attention is not just paid to what the interviewee say but also on how they say it and react with each other during the process (Erikson and Kovalainen 2008). MEDEP officials had informed the entrepreneurs beforehand so that they chose the ones who could represent the whole group to participate in the focus group interview. Depending on CFC there were 2 to 6 entrepreneurs in each focus group interview.

National, regional and district level MESs and EDFs from MEDEP were separately and individually interviewed in the process. MES and EDFs are representatives of MEDEP for facilitating the entrepreneurship process and therefore they have better understanding of the bigger picture of the entrepreneurship environment in subsistence setting. With years of academic and practical experience in the field they are able to pin-point the issues that micro-entrepreneurs would otherwise fail to observe and express. Information from their interview would also help in triangulation of the information received from the entrepreneurs.

The following table lists the number and characteristics of the interviewees and CFCs involved in the research:

Figure 5: CFCs visited

<b>MEDEP CFCs, MES and EDF</b>	<b>Interviewees</b>		
<b>Central office, Kathmandu (MES &amp; EDF)</b>	3		
<b>Parvat District (MES &amp; EDF</b>	5		
<b>Surkhet District MES &amp; EDF</b>	3		
<b>Parvat District CFCs</b>	<b>Entrepreneurs</b>	<b>Focus Group Participants</b>	<b>Type of CFC</b>
Pati Chaur Dhaka Weaving CFC	20	5	Dhaka (Fabric weaving)
Pati Chaur Agriculture Center	NA	5	Agriculture multipurpose
Milanchok Multipurpose CFC	52	6	Multipurpose
Majh Faat Bag Weaving CFC	25	3	Cotton Bag
Hampaal Allo Processing CFC	11	4	Natural Fiber ( <i>Allo</i> ) Processing
Ghurunga Multipurpose CFC	17	6	Multipurpose
<b>Surkhet District CFCs</b>			
Surkhet Micro-Enterprise Group	8	5	Dhaka (Fabric weaving)
Sirjana Micro-Enterprise Group	2	2	Snack Production & Mushroom Farming
Samjhana Micro-Enterprise Group	12	5	Herb Processing
Sagarmatha Micro-Enterprise Group	15	3	Soap Producing
Ginger and Turmeric processing CFC, Surkhet	NA	3	Ginger and Turmeric Processing
Laganshil Micro-Enterprise Group	7	3	Metal Workshop

The interview was conducted in a semi-structured fashion (See appendix 1). In order to ensure uniformity of the questions among all the interviewees an interview guide that reflected the

essence of the theoretical framework of this thesis was prepared (Patton 1990). The interview guide contained general thematic questions which were followed up by other questions as the discussions built up in the focus group. With the follow up questions the interviews became more informal and conversational. With such informal conversational interview there is a risk of the interviewee diverting away from the main research question. Since the evaluator does not know beforehand the circumstances of interviewee the informal part of interview questionnaire cannot be predetermined. The data collection in this case evolves throughout the research and takes more shape progressively. However informal conversational interview is a good method for putting light on underlying emotions, circumstances, and activities that have shaped the topic being discussed (Patton 1990, Hammersley and Atkinson, 2007). As a researcher the interviewer should find a balance between using the interview guide and informal conversation for keeping the interview structured while making it comprehensive and thorough.

The interviews were conducted in Nepalese language and were recorded by using a mobile phone voice recorder. After each field visits the interviews were translated and transcribed to English. Only the parts of the interview those were esteemed essential for the research were transcribed to English.

### **3.1.4. Analysis and Interpretations**

The empirical findings are presented in the form of effectiveness of the MEDEP's program in achieving its goal of sustainable enterprises, and (as the result) alleviation of poverty among the beneficiaries. The data is presented MEDEP's goals of sustainable enterprise development consist of the following key components:

- 1) Economic empowerment
- 2) Social-political empowerment
- 3) Technical skills development and appropriate technology availability
- 4) Access to finance
- 5) Marketing linkage and business counseling (MEDEP & UNDP 2010, UNDP 2010)
- 6) Business strategy

Short stories of the entrepreneurs are also used to present the empirical findings. Stories from the studied case studies are supposed to be "more persuasive and memorable than statistical demonstrations of ideas and claims". With stories the relationship and ideas presented can be experienced more "vicariously", we can understand them "more complexly than had they been presented as a thin description of a construct" (Dyer and Wilkins 1991, 617). The analysis of the empirical findings is done by using the components of the entrepreneurship environment developed in the theoretical framework. Although the research uses two different case districts

for data collection, the analysis combines the data to make more generalized interpretation for subsistence setting of Nepal. Therefore the unit of analysis is the subsistence setting of Nepal where MEDEP implements its entrepreneur incubation programs. Since the goal of this research is to understand how entrepreneurship evolves in the subsistence setting of Nepal and the phenomenon is studied through the lens of a facilitated enterprise development program of MEDEP the analysis mainly covers two aspects. The first aspect of the analysis explores all the factors that are crucial for entrepreneurship at different layers of entrepreneurial environment identified in the theoretical framework. The second aspect of analysis looks into the lessons from the implementation of MEDEP's entrepreneur incubation program through CFCs at the subsistence setting.

### **3.2 Limitation of the Study**

Despite being a popular method for qualitative research case study has some limitations as well. According to Merriam (2009) since case study usually focuses on small units of analysis it has the issue of generalizability and transferability of its findings. On the other hand, the theoretical framework of this thesis is based on the argument that subsistence setting entrepreneurship is a contextual phenomenon. The term “contextual” by definition implies that how things happen in one place and time cannot be directly transferred and generalized to the other place and time. Therefore when transferring and generalizing the learning of this research, especially to the context outside that of Nepal, the reader should not lose track of contextual element of this case study.

Qualitative case study method is also criticized for their limitation due to subjectivity of the research. The researcher is the primary instrument of data collection and analysis therefore subjectivity bias is very likely to happen in case study. The subjective biasness is more likely to hamper the research especially if the interview is less structured and conversational (Merriam 2009). Since my interviews were semi structured and informal conversation in the focus group was a significant source of data it is likely that my subjective knowledge of the context might have unconsciously biased the data collection and analysis. A potential for subjective biasness in this research also comes from the interviewees. Since the interviewees are beneficiaries of MEDEP's program and I contacted them through MEDEP officials it is likely that they might have provided distorted information hoping to get more attention and aid from MEDEP's program.

Eisenhardt (1989, pp. 547) points out that “intensive use of empirical evidence can yield theory that is overly complex”. A good theory is supposed to be “parsimonious”, but due to the bulk of data in qualitative research its theory is often built to capture everything. The result is a “theory which is rich in detail, but lacks simplicity of overall perspective”. It is likely that for a reader

that is used to quantitative gauges such as regression results the results of this research not simplified and robust.

The primary data was collected for writing a policy research paper that aimed at improving the impact of CFCs for its beneficiaries. This objective is slightly different than that of this thesis. Therefore the initial literature review and the resultant theoretical framework used for data collection of the policy research were different than the one used in this thesis. Current theoretical framework is adjusted to the collected data. In this sense it could be argued that this research is susceptible to some unidentified incomprehensiveness in the interview process. In order to provide “bottom up” rich and thick description and analysis to the theoretical frame work I have used intensive focused group interview method. Altogether 20 days were spent in the field to interview 12 different focus groups. With more time and financial resources many districts could have been covered for more cases and the interviews could have been more comprehensive making the research result more robust.

## **4 EMPIRICAL FINDINGS**

In this chapter I will analyze the data to present the empirical findings of this research. Based on the findings conclusions will be derived at the later section. The empirical findings are presented in the form of effectiveness of the MEDEP’s CFC program in achieving its goal of developing sustainable enterprises and poverty alleviation among its beneficiaries.

### **4.1 Economic Empowerment**

Economic empowerment was the most evident observation among the entrepreneurs. As one of the few successful poverty alleviation programs in Nepal MEDEPs interventions are known to be very effective in economic empowerment of its beneficiaries. The CFCs under this study were also found to have had positive impact in economic empowerment of its beneficiaries. The target beneficiaries of CFCs under study were socially marginalized and below poverty line citizens (i.e. income below Rs. 12344/year) (UNDP 2010). Most of the entrepreneurs before being part of the enterprise incubation program were fully dependent on subsistence farming; some worked as temporary manual laborers in the villages, nearby cities or abroad; and the others had no employment of any sort and were fully dependent on their spouses’ or families’ income. The farmers lacked enough arable land and good farming skills so they were barely able to harvest enough to fulfill their basic needs. Manual labor works were seasonal jobs and would not provide a consistent source of income.

All the active members of CFCs, irrespective of gender and other demographic differences were found to be earning regular income from the enterprise. All the beneficiaries after few

years of their entrepreneurship through CFCs are now well above the poverty line. The income level among the interviewed CFC members ranged from Rs. 10,000 per month to Rs. 15,000/month (Euro 90 to Euro 140 approximately). The saving groups that entrepreneurs have to be a part of has allowed them to put aside some of their income as savings that they can utilize for unforeseen expenses such as emergency health expenses, traveling and in long run buying a piece of property or even scaling up their enterprise. Many of these saving groups are also a part of cooperatives which have enabled the CFC members to do larger scale savings and credit lending. The interviewed beneficiaries also reported increased access to proper food, health service, clothes, and housing for the family, and proper education to children as their income level increased after being part of MEDEP's CFCs.

CFCs effect in economic empowerment was more prominently observed among the women beneficiaries. Prior to participation in the CFC program, in most of the cases, only men were involved in the primary source of income generation and women worked as housewives. Women were solely dependent on their husbands or other family heads for their personal needs and petty expenses. With no financial contribution to the family, in illiterate and rural society of Nepal, the housewives also do not have a say at household decisions such as going out for work, sending kids to school etc. After becoming entrepreneur the women members of the CFC reported to become financially independent from their family heads and husbands and were also able to contribute to the family savings. Financial independence and empowerment has also made them more involved in household decisions.

Figure 6

**A story of Sabina Subba:**



Sabina Subba is a MEDEP entrepreneur from Pati Chaur in Parbat District. She is a member of Dhaka fabric weaving CFC in Pati Chaur. Before joining MEDEP in 2005 she worked as a housewife taking care of her husband and a child. Back then, her family was fully dependent on her husband's income as a manual laborer which was barely enough for fulfilling only the basic needs. Her family did not own any agricultural land and lived in a rented room. As her child was

growing their family needs were increasing. They needed extra income for their kid's schooling and other expenses. Her husband's income alone was not enough to support the family anymore. That is when she decided to become a MEDEP entrepreneur by joining the local CFC. She got training with *Dhaka* fabric weaving skills in the CFC. She used the CFC facility in Pati Chaur to produce *Dhaka* fabric. She was able to sell her fabric to retailers that she came to know through the EDFs in MEDEP. She was able to generate a regular income by selling the fabric. With that income she was able to buy her own weaving machine and now she is able to

work from her home. She currently makes 10-12 thousands rupees per month working on her machine. She is very happy that she is able to send her child to a good school with her income. She is glad that she does not have to ask for petty expenses with her husband and can contribute to family expenses and savings. According to her, apart from providing her livelihood the enterprise has also empowered her in the society and that she has become a stronger, independent and confident woman.

## 4.2 Social-Political Empowerment

Social and political empowerment among the marginalized beneficiaries of CFCs is a very important expected outcome for MEDEP. This empowerment correlates not just with improved quality life of the beneficiaries but also with the success of their enterprise in long run. Social and political empowerment is of immense importance in context of Nepalese society because of its inherent socio-cultural and ethnic diversity. This empowerment in Nepalese context can lead to a state in which each individual and institution will think of the other whenever something needs to be done. It is also a means to garner democratic values such as tolerance, integrity, fairness and inclusiveness in the society which are important for flourishing entrepreneurship.

The interviewed beneficiaries of the CFCs reported that their raise in income due to their enterprises directly correlates to positive changes in their and their families' social status. The positive change in the social status is brought by the improvement in their housing, feeding, education and health practice standards due to improved income. According to them as the members of the micro entrepreneurs' groups formed in the CFCs they were participating in various workshops, meetings and social functions where they were able to learn, practice and enhance their leadership skills. Some seasoned micro entrepreneurs (ME) also got to travel around the country for training and sharing ideas with other MEs which has helped them to broaden their knowledge base and improve their perspective about business. MEs had even travelled to foreign countries to showcase their skills and achievements.

The MEs also reported that knowledge of and networking with various government and private individuals and institutions that exist in local level and national level through various activities of CFC has helped their ability to seek out for right resources when in need. According to them after being member of CFCs they have been more actively seeking help from institution such as the District Agriculture Development Office, Department of Small and Cottage Industries, District Administration Office, and various other NGOs and private business in their locality and outside.

Entrepreneurs from marginalized ethnic groups and castes that have become part of the CFCs have particularly received the most benefit in terms of social-political empowerment through entrepreneurship. According to such entrepreneurs, the raise in income coupled with their advancement in entrepreneurial expertise and business skills they are receiving better recognition and respect in the society. Some of the experienced entrepreneurs of the CFC travel inside and outside their district for providing mentorship and trainings to beginners which has enhanced their leadership skills in both their enterprise and society. The entrepreneurs from marginalized ethnic groups and castes also reported to have become more aware of the right and benefits from the state in this process. The society has also given them more recognition as the result of their entrepreneurial participation.

Entrepreneurs also reported that as the result of their engagement at community level during formation of the micro-enterprise groups, cooperatives, saving groups etc while in the CFCs they are now more informed about the institutionalization process and the collective bargaining power associated with it. They all claimed to have become more participating in different social-political affairs as the result of their engagement in their business from the CFCs.

#### **Figure 7: A Story of Kalpana Nepali**

Kalpana Nepali is micro entrepreneur associated with Dhaka fabric weaving CFC in Pati Chaur,



Parvat district. Kalpana started her enterprise in 2008 as a part of MEDEP's marginalized groups target program. On top of other issues such as economic dependence on their family head, being a dalit woman Kalpana and other women from her *dalit* (traditionally considered the lowest caste) community also faced problems of societal discrimination at different levels. Prior to her entrepreneurial days she felt discouraged and

unaccepted in participating societal events such as participating in women's groups, forming a cooperative, representing her community to the government bodies during events and even speaking shoulder to shoulder with men. She and her friends regarded these activities as something reserved for people from the higher caste.

After becoming part of the CFC, working closely with other group members and most importantly starting to make a steady income she feels more confident about her societal engagement. She is currently one of the leading entrepreneurs in the CFC who is capable of training others in fabric manufacturing. She is also the leader of her women's saving group that operates separately from the CFC. She has travelled to many districts as a lead trainer. The district representatives of MEDEP also regarded her very highly and praised for her

achievements. She has become a true inspiration for all the women in Patichaur.

"I started by working at the CFC in Pati Chaur and now I have my own weaving machine at home. If I work regularly in my machine I can make up to 12-15 thousand Rupees in one month. I trade my products with merchants who come from Pokhara. I have made some saving from earnings and am planning to scale up my business by adding one or two machine at my home and hiring people to work for me. I am already training a couple of young women in the community at my place.....I m negotiating with the local government authorities and organizations to help me in the process"

#### **4.3 Technical Skills Development and Appropriate Technology Availability**

The whole idea behind establishing CFCs is to incubate entrepreneurs by providing them with "facilities" i.e., technical skills and appropriate technology to enable them to produce products or services and begin their enterprise. Prior to joining the CFCs the entrepreneurs lacked any technical expertise or technological resource for production. The only productive resources they had were their limited agricultural land, manual labor and some traditional cultivating and/or crafting skills and tools. In the CFC the entrepreneurs were provided with a physical space which had necessary tools and technology to start an enterprise. In the beginning of the incubation process MEDEP's Enterprise Development Facilitators (EDF) also trained them with relevant technical skills, basic book keeping and business skills as a part of Start and Improve Your Business (SIYB) program. The entrepreneurs were also provided with appropriate raw materials necessary for the production process. The entrepreneurs in the case studies received technical skills and technological assistance in weaving fabrics and bags, processing natural fibers, agricultural production, herb processing, handicrafts, metal crafting, dry food processing, and fruits and vegetables preserving and processing. The type of technology and technical skills to be provided was decided based on what was deemed most useful for the resources available in the community and applicable to the market demand.

In some cases, over the period of time as the entrepreneurs were more seasoned, MEDEP helped the entrepreneurs to upgrade the technical expertise of the entrepreneurs and technological capability of the enterprise. For example, in Pati Chaur Dhaka Weaving CFC when the entrepreneurs started to make steady income and were capable of buying their own looming machine MEDEP helped them purchase more advanced machines with subsidies. On the other hand, most of the entrepreneurs reported that they had been using the same technical knowhow and technology that they learned in the beginning of their entrepreneurship. They had not taken initiative to upgrade the technology and technical skills neither had MEDEP helped them to do so. Lack of access to proper finance, insecurity about making investment from their saving, lack of adequate manpower to support their business,

satisfaction with the existing income level, and expectation of assistance from MEDEP or other institutions were the reasons provided by the entrepreneurs for not upgrading their technical skills and technology.

Figure 8:

**Technical and Technological Assistance in Sirjana Micro Enterprise Group:** HariKala Sinjapati and Chandrakala Magar are women from Soligopte village, an informal settlement in Surkhet District. They are the only two members of Sirjana Micro Enterprise Group CFC that is in their village. Just like most other women joining the CFC they were unemployed and dependent on

their husbands' income before being entrepreneurs. They did not have any special expertise that they could utilize for entrepreneurship. At the CFC they were trained with technical and culinary skills to prepare packaged snack in the CFC. They were also provided with all the utensils and machinery required for the process. Just like other entrepreneurs they were able to quickly improve their income through their enterprise and were very satisfied with it. They sell their products in the



nearby town of Birendranagar that has population of about 50,000. According to them their packaged snacks are really liked by people and therefore they have no problem selling them. Moreover the demand is so much that they are always short in supply. Every other day each of them were making sales of Rs 2500 by incurring cost of about Rs 1800 and profit of about Rs 700. On average they were making per month Rs 10000 each. They also mentioned that there is no another snack producing and packaging factory in the area and mostly branded snacks are imported from other cities. The scope for scaling up their enterprise was very obvious to them. However, they mentioned that as they don't have access to loans from banks and other financial institutions; have very little education; do not know proper book keeping; and lack interpersonal skills for marketing, upgrading the technology of their enterprise is scary and risky for them.

"What we are producing now is all two of us can handle. If we produce more we need someone who is talkative and smart to make the sale. We don't know how to talk to customer. How are we going to find that person? How are we going to keep track of our cost and sales? It is a hassle", says Harikala. "The market is really good in this business. Instead of scaling up ourselves we are willing to handover this business to smart people if they are willing to hire us in good salary", echoes Chandrakala.

Entrepreneurs from different indigenous groups and ethnicity were also found to have taken advantage of technical and technological assistance from CFC in modernizing their traditional and indigenous knowledge of crafting products for entrepreneurship. Indigenous *Magars group* from both Parvat and Surkhet districts were observed to have successfully used their skills of making their traditional fabrics to start their enterprise. In Surkhet district ethnic group *Kami* were observed to have used their blacksmith skills as a source for entrepreneurship.

Figure 9:

**Bhakta Bahadur Bishwokarma** is a *dalit* (traditionally considered the lowest caste)



entrepreneur from remote village of Ramghat in Surkhet District. He is a member of Laganshil Micro Enterprise Group and runs his enterprise in the group's CFC as a blacksmith. Blacksmithing skills is something he inherited from his family. This knowledge is indigenous to his caste. Before being trained as an entrepreneur by MEDEP he used his skills only in exchange for crops because that had been the tradition since the time of his forefathers. Owing to both the

lack of financial capability and acceptance to the traditional norms he did not make any initiative to use his skills and technical knowledge to make financial gains by starting an enterprise. It was only after MEDEP's initiative in training and capability development that Bhakta and other six people from Ramghat with similar expertise were able to start their enterprise. MEDEP provided them with improved technology to complement their technical skills and now they are able to work much efficiently and professionally.

*"It never occurred to us that we could use our indigenous skills for making money instead of trading for crops. Nobody in our family had done it before. My father traded his skills for rice and maize so did my grandfather and that's what I learned as well. Also probably because we are from the lower caste the society did not allow us to practice our skills as enterprises. But things have changed now, after getting trainings and other skills from MEDEP we are able to start our enterprise in the CFC. It is more convenient and profitable to work for money. I can make some savings now with the cash which was not possible with the crops. The society is also more accepting to the changes and we are able to make money using our traditional knowledge".*

In cases such as the ginger and turmeric processing CFC in Surkhet it was observed that the technology and technical skills could not be utilized after a couple of years as it could not compete with better technologies and production process in India that heavily reduced the

profitability. Whereas in other cases such as the medical herb processing CFC in Surkhet that is run under Samjhana MEG middlemen were ripping the benefits by cashing in the entrepreneurs helplessness in purchasing proper technology.

Figure 10:

**Jagat Bahadur Marsangi, ME and Chairman of *Samjhana MEG CFC*, Surkhet:** “..In our area we are 12 entrepreneurs representing 12 households who have replaced traditional crop



cultivation with medical herbs cultivation. We cultivate Mentha, Chamomile, Asare etc and produce their oil by processing them in our CFC's processing plant. Herb cultivation is very profitable compared to traditional maize or wheat cultivation. Our only challenge is we established this plant with financial aid from a middleman in Nepalgunj whom we have given the sole right to buy our product until the cost of the plant is paid off. As a result of which we don't have proper access to the pharmaceutical companies who could be our potential customer. The middleman lowers the asking price every year citing various reasons. In the first year of our production we sold Mentha for Rs. 3000/liter, second year the price was decreased by a few hundred per liter and this year the merchant's is paying only Rs. 1600/per liter. We think that the middleman is taking advantage of our helplessness. If we could pay off the cost of the plant immediately and MEDEP helped us connect with the pharmaceutical companies directly we would benefit a lot.”

companies who could be our potential customer. The middleman lowers the asking price every year citing various reasons. In the first year of our production we sold Mentha for Rs. 3000/liter, second year the price was decreased by a few hundred per liter and this year the merchant's is paying only Rs. 1600/per liter. We think that the middleman is taking advantage of our helplessness. If we could pay off the cost of the plant immediately and MEDEP helped us connect with the pharmaceutical companies directly we would benefit a lot.”

Later it was found that the middleman from Nepalgunj who purchased oil from the CFC in Surkhet had filed quotation of Rs 3000/per liter for Mentha for selling it to a pharmaceutical company in Butwal. The middleman had a gross profit of Rs.1400/liter. The pharmaceutical company refused to be cited for this research.

#### 4.4 Access to Finance Service

Improving access to finance service is crucial for sustainability of enterprise. It helps facilitate the production chain and supply chain both while starting the enterprise and while scaling it up. In order to ensure access to finance for the entrepreneurs of the CFCs they are made a part of saving groups where they have to set aside certain portion of their monthly income as saving. The savings of the entrepreneurs ranged from as less as Rs. 20 /month in Majh Faat Cottton Bag

Weaving CFC, Parvat to Rs. 500/month in Surkhet Micro-Enterprise Group (Dhaka fabric weaving CFC), Surkhet. The savings collected by the MEs in their saving groups were utilized for providing credits to its members. The credits were used mostly for buying the raw materials for their enterprise and occasionally for fulfilling unforeseen household needs. Some of the CFC entrepreneurs such as the ones from Samjhana Micro-Enterprise Group, Sagarmatha Micro-Enterprise Group in Surkhet and Hampaal Allo Processing CFC in Parbat were also part of cooperatives which would allow them to borrow loans. The saving groups were trained with basic book keeping required to keep track of credit, saving and corresponding interest rate involved in such transactions. The saving groups did not have any problem of loan default or untimely payment as all the members had good relationship and closeness among each others. The cooperatives were more systematic institutions and had professional manpower to take care of the financial service. Some entrepreneurs were able to secure grants and subsidies from government institutions and NGOs such as the District Agriculture Development Office, District Administration Office, Department of Cottage and Small Industries. Some of them also received small scale one time loans from Youth and Small Entrepreneur Self Employment Fund run by the government of Nepal. The saving groups, and in some cases the cooperatives, were the only source for regular loans.

The entrepreneurs did not have access to other larger financial resources such as the commercial banks and development banks. These institutions are mostly based on densely populated areas and therefore were inaccessible to rural entrepreneurs. These institutions also considered the entrepreneurs' un-bankable. The micro enterprise groups that owned the CFCs had option of using the CFC property as collateral in the bank, however it was found that most of the CFCs were constructed in debated land and others in private land because of which the banks were not willing to lend money for them. In cases where banks were willing to use the property as collateral the property valuation was done very nominally and the procedure was very tediously bureaucratic and time consuming. According to the entrepreneurs even if they borrowed the loan in this manner it would be very difficult for them and the financial institutions to appropriately distribute the loan among the member entrepreneurs and monitor the pay back. As the result the entrepreneurs interested in borrowing money reported to have borrowed very high interest (ranging from 20-30%/year) rate private loans. With the increasing trend among the young and adult male member of the subsistence family to go abroad for finding jobs some women entrepreneur have found a source of finance in the remittances they receive from their husbands to enhance their enterprises. Overall, lack of proper source of finance was observed to be a hindrance for aspiring entrepreneurs who wanted to scale up their enterprise.

Figure 11:

**Ganga Timilsina** is a member of Pati Chaur Agriculture Center CFC in Pati Chaur village in Parbat District.



She started her journey as a subsistence setting entrepreneur about a decade ago. In the CFC she received trainings in improved agriculture, vegetable crop farming, and making processed food using her own harvest. Her expenses during the learning phase and starting her agro-based entrepreneurship was covered by MEDEP as a part of their entrepreneurs' capability development scheme for implementing CFCs. Her enterprise was very helpful in

improving her family's financial status and quality of life. With new agricultural and food processing skills she was able to make more and consistent earnings compared to traditional method of farming. However, lacking bankable property she was not able to find enough funding for scaling up her enterprise and production possibilities. The problem of reliable and easier financial source also applied for other CFC and non CFC entrepreneurs from the locality. With the entrepreneurs' collective effort and aid from MEDEP a local cooperative was started. The cooperative provided both the saving and credit facilities. With about 150 members depositing 100 to 200 rupees per month the cooperative is capable of providing a good amount of loan to entrepreneurs who have good business strategy for scaling up their enterprise. Ganga was able to utilize that credit facility and has now started her own grocery store where she can sell her own products and other goods of daily use. She has also expanded her agro-enterprise to accommodate beekeeping and ginger cultivation in her existing production line. Ganga is also the president of the cooperative.

*"Having the cooperative has helped all the entrepreneurs with loans and savings. Most of the members are entrepreneurs therefore most of the loans are used for the betterment of the enterprise. Sometimes where there unforeseen expenses in the household we can get quick loans to take care of such expenses.... If you are only saving then you are able to earn interest form that..... Since we are all from the same locality we all know each other and our enterprises very well, so it is very easy to make a collective decision about the loan. We have not had any serious problem of loan default so far.....Depending on the collective level of trust of an individual we also provide loans to new entrepreneurs without any collateral....I think this is a great opportunity for the new entrepreneurs because when we first started as entrepreneurs we did not have that privilege, we had to always depend on NGOs like MEDEP for everything," Says Ganga.*

Figure 12:

**Ghurunga Multi-Purpose CFC** is another CFC in Parbat district located in Ghurunga village which is 6 hours of walking distance from its head quarter. The village of Ghurunga is home to indigenous *Magar* ethnic groups. The entrepreneurs of the CFC are trained in making their traditional fabrics using hand looms. They prepare different cloth articles using the fabric which



are eventually sold to retailers in the district head quarters. Altogether there are 17 entrepreneurs who are working from their home or in the CFC in their fabric and clothes manufacturing enterprise. These entrepreneurs also have a saving group where they deposit Rs. 50/ month. With few entrepreneurs

depositing a very small amount of saving, their saving group does not have enough capital to make large loans that can help to scale up their enterprise. With other larger cooperatives and financial institutions located very far away, and with limited asset for collateral, they are not in a position to easily access financial assistance for their enterprise. According to **Ranmaya Pun Magar**, an entrepreneur from the CFC, their traditional *Magar* clothes are very popular not just in the in the district head quarter but also in Pokhara, one of the largest cities in the country and that she could hire a couple of more women like herself, train them and produce more and easily find market for the production. Due to lack of personal financial resources and inadequate loan from her saving group she plans to utilize the money she receives from her husband working abroad to buy new looms and extra raw material.

#### 4.6 Market Linkage and Business Counseling

MEDEP also does the task of creating marketing linkage and providing business counseling to the entrepreneurs as a part of implementing CFCs. Enterprise Development Facilitators (EDFs) and Business Development Service Provider Organizations (BDSPOs) are marketing experts and business counselors at the district level that are assigned by MEDEP for this purpose. All the entrepreneurs of the CFCs in this research received trainings and networking for proper marketing and management of their business from the EDFs and BDSPOs. They also received basic knowledge about book keeping of their enterprise. In the beginning of the enterprise development process the entrepreneurs were also facilitated by the EDFs to build relationship and find assistance from relevant institutions such as the Chamber of Commerce and Industries (FNCCI), District Administration Office, Department of Cottage and Small Industries and other NGOs. The entrepreneurs were also given a chance to represent their CFCs and their products to fairs and exhibitions for promotional and marketing purpose. Another key component of MEDEP for creating marketing linkage is the district level, regional level, and national level

marketing outlets called Saugat Griha established for selling the products of MEDEP entrepreneurs. The EDFs and BDSPOs are also always present at the district level to provide any business related solutions to the entrepreneurs.

Most of the entrepreneurs were observed to have been practicing the exact same method of production they used when they first started their enterprise. They were also using the same source of raw materials and the same sales network that they used in the beginning despite knowing that there could be other better alternatives.

The entrepreneurs in this research reported that the marketing process of the enterprise has been the same as when they first started it. The entrepreneurs have not been able to broaden their market reach outside of their locality. Even though they knew that there are bigger markets for their products outside their village they have not been able to tap into those markets. In cases where they tried to make business outside their locality the middleman and traders took larger share of the profit. Even the entrepreneurs' designated shopping outlet, Saugat, was not a trust worthy marketing option for them. Entrepreneurs from CFCs from both the districts who had done business with Saugat reported that they never received appropriate price for their products and that the payment period was too long or that they never received payment for their products.

MEs of the CFCs were observed to be incapable of running any kind of mass media advertisement. They were totally dependent on the marketing and sales networking knowledge from the SIYB training and on the expertise of the EDFs. Once the MEs start to make steady income from their enterprise MEDEP starts to treat them as graduates and hence the help they receive from the EDF is in decreasing order over time. So if the entrepreneur is not proactive about their business then they cannot explore new avenues in the market. The EDFs on the other hand have no extra incentive for taking further steps than the ones in their official terms of references to create extra values for the MEs.

Geographical difficulty of the entrepreneurs' location was also reported to be a barrier for appropriate market linkage and business. The localities of the entrepreneurs were separated by difficult hills, rivers, and thick forests from the larger towns and cities. They were barely connected by roads which were only functional during the dry season. This meant poor access to not just the market but also to other institutions and support mechanism of business.

Figure 13:

**Mohan Magar, EDF, Surkhet:** "My experience working as a EDF since 2008 in the district is that, our skills as entrepreneurship facilitators and business counselors are only good enough for the starting phase of the enterprise development. We only know the basics of the business and we learn to implement it as a project not as proper business. Therefore when it comes to

scaling up entrepreneurs' business we cannot provide the best counseling" ..... "moreover, we don't have any incentive to do so, as we are just salary workers" ..... "On the other hand, entrepreneurs want to become totally dependent on the EDFs and seek readymade market solutions without taking risk, which is not practical. We cannot guarantee things to happen for them, without incentives. That's why we cannot force them with new ideas even if we have some....."

#### 4.6 Business Strategy and Growth

The entrepreneurs of the CFCs in this research were observed to have no systematic future planning of their business. They also did not seem to have a proper growth strategy. Most of them reported to be satisfied with the income they are receiving from the current state of their enterprise. According to the EDFs they are satisfied with their current income level because this is already much better than what they used to earn before joining the CFCs. Also, most of the CFC entrepreneurs thought their minimal education and lack of technical abilities was a barrier in handling the growth process of enterprise. Lack of education was also reported to correlate with the lack of confidence essential for exploring new marketing avenues. A lot of entrepreneurs also reported that they have barely travelled outside their villages. They were observed to be shy and lacked interpersonal and communication capability crucial for the success of business. According to them, it was because of this "shyness" and "naivety" that they were unable to explore the markets outside their village. The entrepreneurs were also observed to be incapable of taking the managerial role within their enterprise if their business were to scale up. Although they liked the idea of getting more income by expanding the scope of their enterprise, they considered it a "hassle" to manage bigger production, more worker, and bigger customer base. The root to considering it a "hassle" was the fear due to lack of personal capability. Owing to the "hassle" the entrepreneurs mentioned that that they would be happy if MEDEP or some other entity took care of sales and marketing aspect of their enterprise so that the entrepreneur would only specialize and concentrate on production (See Box 3 above).

According to the EDFs sometimes the entrepreneurs in a bid to receive benefit from the free "aid money" from MEDEP, other NGOs and the government tend to not explore the growth potentials. They seek dependency on these institutions for sustaining their business and hence lack a strategy of their own.

Figure 14:

**Lalit Saru, EDF, Surkhet:** "The soap producing CFC in Surkhet produces 200 soaps per day and everything is sold out in the 3 villages in the vicinity, they don't even have to bring their products to the district head quarter"..... "I made a very viable business plan for producing 700

soaps per day for them with virtually guaranteed profit but the CFC members are not motivated to invest on the required resources and ask me to help find financial aid from MEDEP" ...."I know their financial capability, if they want they can arrange the investment but they simply don't do it." ..... "Even for simple things such as the labels for their soap packages, MEs only used them when MEDEP was providing them for free. Now MEDEP has stopped providing them with labels and they don't use them anymore." "It is hard to make them understand that these things are their responsibilities" ..... "Sometimes, I think maybe I should be running the soap factory!"

**Uttam Shrestha, MES, Surkhet:** "It is natural for the MEs to be dependent on MEDEP. The CFCs are born and grow up at the help of MEDEP. Just like children, no matter how grown up they are, always expect the guardianship of their parents MEs of the CFCs also feel MEDEP as their guardian." ..... "...the dependency syndrome exists because we (MEDEP) are unable to strategically find the break up point with the MEs." "... or we (MEDEP) should have strategy to capitalize on people's desire to stick with us as some sort of mutually beneficial business partnership."

## 5 ANALYSIS OF THE EMPIRICAL FINDINGS

In this chapter I will present the analysis of the empirical findings in the form of factors affecting the entrepreneurship phenomenon in the subsistence setting of Nepal and the bottlenecks of facilitated entrepreneurship program, i.e. MEDEP, in such setting. These factors at different level of entrepreneurship ecosystem are:

*Entrepreneur:* a) Need, b) Capability, c) Motivation

*Enterprise:* a) Technology, b) Management c) Business Differentiation

*Economic Environment and Support System:* a) Micro Economic Environment, b) Macro-Economic Environment, c) Source of Finance

*Social-Cultural-Political Environment:* a) Traditional and Indigenous Knowledge, b) Lack of Entrepreneurial Knowledge, c) Vulnerable Political Environment and Migration

*Geography and Ecology*

The identified bottlenecks are:

*Dependency Syndrome*

*Scale up Bottleneck*

*Lack of Strong MEDEP brand*

## 5.1 Factors affecting Entrepreneurship

### 5.1.1 Entrepreneur

This section will diagnose entrepreneur as one of the components of entrepreneurship ecosystem and identify its crucial aspects that affect entrepreneurship. The entrepreneur is the central figure and the driver of entrepreneurship phenomenon. Therefore, although studied as a separate component its factors studied in this section will recur at other components as well and appropriate connections will be made in description process as we proceed to different sections.

#### a) *Need: A Driver and a Bottleneck of Entrepreneurship*

It is said that necessity is the mother of all goodness. Since entrepreneurs are innovators and inventors of the goodness this saying is most relevant for them. As observed in the personality trait theory, the mainstream entrepreneurs are known to practice entrepreneurship in order to fulfill the needs for achievement, creativity, autonomy, recognition, self-efficiency and so on (MacMillan 1988, Deaking and Freel 2009). In Maslow's hierarchy of need these needs are ranked as higher level needs for an individual (Maslow 1970). At the subsistence setting as well it is the "need" that triggers entrepreneurship. However unlike mainstream entrepreneurship it is the basic needs in Maslow's hierarchy of needs that give rise to entrepreneurship in subsistence setting. Basic physiological and safety needs such as food, water, clothes, housing, family security are the drivers of entrepreneurship in this setting.

The recognition and urgency of the needs leads to two possible alternatives for citizens of the Nepalese subsistence setting. The first option is to be satisfied with the existing state of affairs, without doing anything to alter the current means for fulfilling the needs. And the second option is to find, alter, and/or create resources and means to figure out a better way to fulfill the needs. When one decides to take the second path by acknowledging their individual and family needs, it is the path of entrepreneurship. It might sound unintuitive as why anyone would follow the first alternative of status quo, however, with lack of education, financial resources and skill sets the subsistence setting population of Nepal are forced to be stuck with the status quo, hence the problem of poverty and underdevelopment in the country. In other words, despite urgency of needs lack of "capability" forces them to choose the status quo. The marginalized population of the *dalits* (lower castes), indigenous groups and within them women, that comprises the most of the subsistence population often accept the status quo as their fate as it has been the norm of the society since the time of their forefathers.

The "need" of entrepreneur in the subsistence setting as the driver of their entrepreneurship is also a crucial factor for determining the nature and long run scope of their enterprise. For generations the entrepreneurs are used to struggling very hard for fulfilling the basic needs.

Therefore being able to fulfill the basic needs relatively easily is a big achievement for them. Most of the entrepreneurs were observed to be content with the income they had from their enterprises even though there were clear opportunities for their expansion and scale up. Unarguably, in the beginning the ease of earning an extra bit of income is a big achievement for the entrepreneur. But for the economic sustainability of the enterprise, it has to remain competitive in the market by scaling up and taking advantage of the economies of scale. In a competitive market there is always a risk of being displaced by a bigger business if the enterprise is not competitive. By fixating personal aspirations to only fulfilling the basic needs the entrepreneurs limit the potentials and scope of their enterprise to their locality and small income.

Therefore, the nature and “the level of needs” of the entrepreneur both instigate and shape entrepreneurship in the subsistence setting. In the context of global sustainability where the ideas of development, quality life, and happiness have been constantly evolving it is difficult to objectively define quality of life and different levels of needs to inspire an individual as an entrepreneur. However, if we assume that at the subsistence level growth and higher income are indicators of better life it seems logical to conclude that the entrepreneur should constantly upgrade their aspiration and ambition to fulfill higher level needs (in the Maslow’s hierarchy of needs) in order to stay innovative, competitive, and economically sustainable.

#### **b) Capability: A Fuel for Entrepreneurship**

The “needs” of the entrepreneur are the instigator of entrepreneurship in the subsistence setting; however, capability of the entrepreneur is the primary fuel without which the enterprise cannot exist and run. Entrepreneurship in the subsistence setting involves breaking the “status quo” mentioned in the previous section by accessing and processing resources in order to create value that can be traded to gain some kind of benefit. An individual must have capability to access and process the resources in order to make entrepreneurship happen. Basic ingredients for such a capability in an individual in the subsistence setting are: some level of literacy for communication and to be able to maintain basic book keeping, a source of funding-cash or something that can be used as collateral, and some kind of technical or craftsmanship skills usable to create a product or service. MEDEP provided them with initial capability development schemes through CFCs to enable to start their enterprises. They were provided with a physical space which had necessary tools and technology to start the enterprise. MEDEP’s Enterprise Development Facilitators (EDF) also trained them with technical skills, basic book keeping and business skills, and they were also provided with raw materials, micro credits, and marketing networks in order to ensure their wholesome capability development necessary for starting and running their enterprise. Mentoring therefore plays a significant role in entrepreneurial pursuit of subsistence setting population of Nepal through capability development. The EDF’s as mentors not just provide advice, guidance, knowledge and coaching

in managerial and industry specific areas of the business but also provide perspectives that broaden potential entrepreneurs' perception of opportunities (Ozgen & Minsky 2007).

As the enterprise continues to function the entrepreneur should constantly upgrade their capability to harvest their maximum potential. In the previous section it was identified that owing to their basic needs often subsistence setting entrepreneurs confine potentials of their enterprise to their locality and small income. One of the reasons for this to happen is the entrepreneur's inability to upgrade their capability in line with the demand of the bigger customer base and competition. They consider themselves too naïve to tackle the bigger market. Since the entrepreneurs in this context come from marginalized social groups such as the lower castes, indigenous groups, or woman, they feel more vulnerable to exploring and expanding their entrepreneurship to new level. The initial trainings, skills and networks provided by the MEDEP EDFs are only helpful to kick start producing goods and services and gain immediate income. As good as the income is for having positive impact in entrepreneurs' lives, these initial trainings and skills do not make them capable and confident enough to expand their enterprise. In order to ensure competitiveness, growth and financial sustainability of the enterprise the entrepreneurs should be capable to build on their existing knowledge, take risk, and find and create new avenues for their business. However, they lack the capability of coming out of their comfort zone to deal with the supporting agents of their enterprise such as government offices, NGOs, manufactures and raw material providers.

Illiteracy or very low level of education negatively affects the capability and confidence of the entrepreneurs of the subsistence setting. Education plays central role in identifying, assimilating, and absorbing new knowledge. Formal education is ascribed to provide prior mental programming which is positively correlated with venture start up success. Such knowledge coupled with experience is crucial for identifying and benefiting from opportunities (Ozgen & Minsky 2007). Nominal formal education is another reason that severely hampers the capability of the subsistence setting entrepreneurs in Nepal.

### *c) Motivation: Entrepreneurship is a Flux*

Connected deeply with the entrepreneur's element of need and capability is their motivation to excel in their enterprise. Non subsistence setting entrepreneurs who are driven by the higher level needs such as spontaneity, creativity, higher self-esteem and achievement are identified with strong motivation for creativity and innovation in producing goods and services. They constantly explore new dimensions for expanding and moving "their companies beyond the initial phase of their organizational life cycle" (Maslow 1970, Smith and Miner 1983). They are willing to take more risk and they don't wait for the opportunity to come to them, instead, they create opportunities themselves. For these mainstream entrepreneurs, their desire to fulfill these kinds of needs are complemented by their capability in terms of education, financial

resource, networking and interpersonal skills. They are capable of perceiving and analyzing the future benefits of their enterprise because of which they have higher motivation for constantly innovating in their enterprise (Fillon 2011, Wood 2005). Motivated entrepreneurs are ***proactive*** and vice versa. They constantly create and control their situation (of their resources and networks) to generate incremental value from their enterprise. In this case, as a ***proactive*** action entrepreneurship is a ***flux***, a dynamic and constantly flowing phenomenon.

Entrepreneurship does not guarantee immediate quick and stable return to the input. It takes a while for the enterprise and entrepreneur to get used to with the market system so that steady cycle of income can be established. However, lacking alternative source of income people from low economic background need and want quick return from their work. Having to be persistent in their enterprise and waiting longer period for pay back results in low motivation among the entrepreneurs.

In the subsistence setting, driven only by the basic needs and lacking the capabilities the entrepreneurs do not have the level of motivation to experiment with creativity and innovation in order to take their enterprise beyond the initial phase of their organizational life cycle. They are not able to perceive the value of taking one extra step to search for alternative that can change their enterprise for better and are also not motivated about taking that step. Clinging to the same production and supply source often causes them to be taken advantage by the suppliers of the raw materials and their retailers. The lack of motivation can be traced to the fact that their enterprise, in the first place, was not started as a ***proactive*** and creative decision of entrepreneur. It was started as an external intervention and ***reactive*** action to their poverty and lack of livelihood. On top of that, MEDEP provided them with all the initial costs and resources required to establish their enterprise. They started their enterprise without having anything at stake. The entrepreneurs see MEDEP as source for free services and finance because of which they are dependent on it and are not proactively working to improve their enterprise. The goal of this “reactive” entrepreneurship for the entrepreneur was to get themselves out of status quo of poverty. Once the goal is reached the entrepreneurs tend to be content with their new and relatively better state of being and therefore lack motivation to take their entrepreneurship to new level. In a sense, they merely move from one status quo to another relatively better status quo. Hence, lack of motivation among the entrepreneurs mars entrepreneurship process in the subsistence setting and that the process being a ***reactive*** action of the entrepreneurs is static (Herbert and Link 1989). Having lived as the marginalized citizen in the society for generations the entrepreneurs of the subsistence setting have a sense acceptance to small income that merely fulfills basic needs. They consider that it is their fate to stay as such and believe that it was their luck to be helped by MEDEP for becoming entrepreneurs. Belief in luck and fate is detrimental to work ethic and achievement motivation which are keys to success in entrepreneurship. This also promotes dependence and

entrepreneurs are not proactive for growth and finding new avenues which are crucial for viability of the enterprise (Bista, 1991).



Figure 15:

**Uttam Shrestha** is the Micro-Enterprise Specialist who oversees four districts of MEDEP. Among other projects of MEDEP he is in-charge of implementation of about 30 CFCs in these districts. He works with several EDFs and other stakeholders for the implementation of the CFCs.

According to him capability and motivation go hand in hand in entrepreneurship development in the subsistence setting. Moreover there is always a limit to how much a program like MEDEP can do for capability development. After a point the entrepreneurs should take the responsibility onto their shoulder and so that they can take their enterprise to next level. If they don't have that motivation they won't be able to take the desired benefit from the enterprise.

*"Capability development is very important in the beginning because the poor people pretty much have nothing to start with. No education. No property. Nothing! Once we make them capable by training and providing resources and they start making regular income, now it's all about their motivation that makes them successful. I would say, overall, it is 5% capability and 95% motivation that makes one a successful entrepreneur. A motivated person also finds a way to be capable", says Mr. Shrestha.*



**Shiva Shankar Baniya**, is the district officer for the Department of Cottage and Small Industries who works closely with the entrepreneurs of the CFCs in Parbat District. He shares his experience regarding the importance of motivation in entrepreneurship:

"Although we train the entrepreneurs in all aspect of enterprise development, it is very hard for us to make them opportunity seekers and opportunity creators. They know that there is more potential in their enterprise but somehow they don't act on it... In my district I have had many incidents where I have taken steps beyond what I am required to do in order to create opportunities for them. Lately I am finalizing an agreement with a school to buy ties and bags from our local fabric manufacturing entrepreneurs which is a big production potential for them. I have started a culture of providing our entrepreneurs' products as gifts and awards during various functions that happen in the district. Only problem is that I am not going to be here forever to organize these schemes for the entrepreneurs, and it not

sure the next officer will do the same. That is why the entrepreneurs have to be motivated and take initiatives themselves..."

**MajhFaat Bag Weaving CFC** in MaajFaat village of Parvat district was started with the aim of promoting entrepreneurship among the *dalit* women in the village. The women were provided



with extensive training in bag weaving skills, appropriate tools and equipment, and even free raw material was made available for them. The EDFs from MEDEP also helped them to find a retailer to ensure that they will have no problem making the sale. Once they started making products, after first couple of transactions their original retailer citing problems in quality of products refused to buy from them.

The entrepreneurs instead of negotiating with the retailers and finding professional business solution stopped the production altogether leaving the CFC in limbo. Their products were getting older and degrading in the CFC and tools and equipment themselves were all covered with dust and spider webs. The entrepreneurs said that they would soon figure out a way out of the situation but the EDFs mentioned that they have been saying that for over a year and are not motivated at all to find a solution.

### 5.1.2 Enterprise

In this section I will diagnose Enterprise as one of the components of entrepreneurship ecosystem and identify its crucial aspects that affect entrepreneurship.

#### a) Technology

The enterprises developed in the CFCs whether they are based on product development (such as fabrics, soap, clothes, herbs) or service providing (such as metal workshop, sewing) are technology dependent. Technology represents the institutional capability of the enterprise. Just like we discussed in individual capability of entrepreneur it is important that institutional capability of the enterprise is maintained and enhanced over time in order to ensure the competitiveness and sustainability of the enterprise. In the subsistence setting of Nepal the technologies intervened by MEDEP for enterprise development are very basic ones. For the initial purpose of the program which is to alleviate poverty by incubating micro entrepreneurs the low-tech intervention does right justice. The enterprises are producing goods and services only for their locality. Entrepreneurs make small profit which helps them to come out of poverty line. However for the sustainability and growth of the enterprises they have to be competent in the production process by enhancing the technology over time. With the ease of mobility of goods and service over time, the competition is often times with national and multinational companies such as in the case of soap production enterprise in Surkhet and fabric

manufacturing enterprises. It is not always the enhancement of technology that keeps the enterprise competent, it could also be the use of complementary and accessory technology that could help the enterprise to add value to their production. Such as a simple machine that makes paper packages and labels for soap could help the soap producing enterprise preserve their production for longer period and create a better brand value. Similarly a proper packaging machine could help increase the production capability of the snacks producing enterprise and ginger and turmeric processing enterprise in Surkhet, thereby helping them cash in more profit.

The cost of the technology and the level of expertise (the capability) it demands from the entrepreneurs is a major constrain in the scale up process. Entrepreneurs are often helpless about cashing in the obvious profits because they are unable to afford proper technology and/or use them adequately. Another constrain in relation to technology is the lack of power grid and consistent supply of electricity in the country. Most of the rural Nepal is still not connected with the central power grid and the power supply can go down to as merely 8 hours a day during the dry seasons severely hampering the energy exhaustive enterprises. It is due to the lack of proper power supply that the ginger and turmeric processing plant in Surkhet had to be relocated.

#### **b) Management**

In case of CFCs where entrepreneurs are engaged in mass production of goods and make sales to retailers, such as the soap producing CFC, MajhFaat bag weaving CFC and the *dhaka* fabric producing CFCs it is crucial that they are able to manage various aspects of their business such as quality control, relationship with suppliers and retailers, relationship among the entrepreneurs within the CFC and not just the production process. Since CFCs are established with the facilitation from MEDEP entrepreneurs often assume that these aspects will be managed by MEDEP which leads to the failure of their enterprise. Such as in the case of MajhFaat CFC the lack of professionalism in managing relationship with the retailers and inability to maintain quality of production caused the CFC to be unsuccessful.

#### **c) Business differentiation**

In the facilitated entrepreneurship development program of MEDEP via CFCs many people are at once trained on same kind of enterprise development. This gives rise to similar kind of enterprises developed within the district and also across many districts. For example, the *dhaka* fabric entrepreneurs in Parbat district and Surkhet district have received same kind of trainings and technologies and hence their product do not have any significant competitive advantage against each other within the district and across the district. Having learnt from the same instructor and used same technology even the basic designs and patterns used in the fabrics are identical from among different entrepreneurs. Since Surkhet and Parbat are distant apart the entrepreneurs do not have to compete for the same market however entrepreneurs from both

the district mentioned that they have to compete against entrepreneurs from nearby district as the result of lack of product differentiation. Due to lack of concept of proper marketing and branding the entrepreneurs are also unable to get appropriate value for their products. Soap manufacturing entrepreneurs in Surkhet district sell their products unpackaged and without label because of which the customers are unable to identify and associate with their products. This is a great loss in longer run for the entrepreneurs because it is easier for the customers to divert to other products if they don't recognize the brand. Enterprise differentiation within one sector of production is crucial to create competitive advantage for each enterprise and to minimize competition among fellow entrepreneurs.

### **5.1.3 Economic Environment and Support System**

Entrepreneur as the central figure in entrepreneurship phenomenon can only flourish their enterprise when they are able to make optimum use of other components that exist in the entrepreneurship ecosystem around them. In this section I will present the analysis about factors of economic environment and its relevant support system that are crucial for entrepreneurship in the subsistence setting of Nepal.

#### **a) Micro Economic Environment**

Being a developing economy Nepal has unsaturated market which provides broader opportunities for the entrepreneurs. Majority of the Nepalese economy is still driven by the output from subsistence agriculture. Especially in the rural subsistence setting people still practice "household economics" (self-sufficient from domestic mode of production) and "reciprocal economics" (economy based in reciprocal exchanges of goods and labor services) (Rosser Jr and Rosser, 1995). With development in education and accessibility to outside world the idea of free market is slowly and gradually imbibing in the mindset of people in rural areas. This creates big potential for innovation in the existing methods of running economic affairs. This potential in other words is the opportunities for entrepreneurship. In this context, unlike western entrepreneurs, who have to innovate and operate at the fringes of the economy, emerging market entrepreneurs have the benefit of operating closer to the core necessities of the people (Lingelbach et. al 2005). As the country and people are aspiring to improve their economic status their awareness and demands for products and services in general are steadily improving as well. The increase in demand means proportionate increase in entrepreneurial opportunities. In this immature market there is also less threat for competition for the early entrepreneurs. Subsistence setting usually being the representative of remote and rural areas of the country the logic of unsaturated market and high entrepreneurship opportunity area holds true for it as well.

Apart from serving as the source of opportunity for entrepreneurship micro economic environment also consists of various other aspects which are crucial for the success of

subsistence setting entrepreneurship. Some of such important aspects are the networks of suppliers of raw material on the production aspect and that of retailers and wholesalers on the sales aspect of the enterprise. As discussed in the capability development aspect of enterprise, in the beginning of the entrepreneurship process connection and management of aforementioned networks are looked after by MEDEP experts for the entrepreneurs of the CFCs. In the beginning such networks are usually build from within the locality or from nearby towns. Therefore the target market for the enterprises is very local. However, as the entrepreneurs mature and aspire to grow they shift their scope progressively from local level to district level to regional and even national level. To facilitate such coverage of subsistence setting entrepreneurs various NGOs, social and private enterprises including MEDEP have district level, regional level and country level shopping outlets in various places. Saugat Griha is the shopping outlet promoted my MEDEP that aims to enhance business of the entrepreneurs. Sana Hastakala, Mahaguthi, and Dhukuti are other shopping outlets facilitated by the likes of UNICEF to promote subsistence entrepreneurs. Bigger cities not just provide bigger scope for market expansion they also provide better networking opportunity for finding alternative resources and supplier for raw material. With entrepreneurs opting for enhancing their motivation and capability they can take benefits from the larger markets as well.

Figure 17:

**Bhavi Khatri and Dilmaya Pulami Magar** are *Nepali Dhaka* weaving entrepreneurs representing the Surkhet MEG from Birendra Municipality in Surkhet district. Surkhet MED entrepreneurs are



one of the pioneer *Dhaka* fabric entrepreneurs in the district who were incubated by MEDEP. They started their enterprise in 2008. *Dhaka* fabric production was relatively new concept in their region when they started the enterprise as the result they got to enjoy competitive edge of being early starter. Currently they earn about 10000 to 12000 per month and are planning to scale up their CFC on their own investment and by bringing more women entrepreneurs in the group. They are taking advantage of both the local markets in their district and larger town in the region without having much competition.

### b) Macro-Economic Environment

Most of the micro enterprises in this research are based in manufacturing consumer products such as fabrics, hygiene materials and food products. Being a landlocked country bordering economic giants India and China the macro-economic prospectus of Nepal in manufacturing

consumer goods is less competitive. The competitive advantage is worse for the entrepreneurs at the subsistence setting because they can only produce in small scale. They are very far from taking advantage of the economies of scale. It is often much cheaper to import consumer products from abroad then to manufacture them in the country. Being a landlocked country Nepalese subsistence setting entrepreneur also have a disadvantage of bearing extra transaction cost for transportation and custom if the raw material for their enterprise needs to be imported. Often times a swing in the cost of raw materials in India compels them to make drastic changes to their retail prices making them vulnerable to loss. For example the raw material for Nepali *Dhaka* fabric and soap manufacturing enterprises in Parbat and Surkhet comes from India. The price of the raw material is contingent to changes in demand and supply equilibrium in larger Indian markets. These changes hit the small entrepreneurs much harder as they have to compete with larger manufacturers of soaps and fabric that operate in very high level of market information and insurance to loss. Similarly, since the entrepreneurs don't have the capability to buy raw materials in large scale, by the time they receive their order it goes through several intermediate wholesalers and retailers which increases their cost price. This makes their business very insecure and severely reduces their profit margin.

The macroeconomic advantage for the subsistence setting entrepreneurs in Nepal lies in their ability to use the local raw material in production process and to utilize their indigenous skills and expertise in craftsmanship. Unique geography and ecology of Nepal and its diverse social and cultural aspects provide these advantages which are explained in next sections.

Figure 18:

**Ginger and Turmeric Processing CFC** was established in Bijura village of Surkhet district with the aim of encouraging farming of ginger and turmeric as cash crop among the subsistence farmers in 2010. Around that time the market value of turmeric powder was Rs 300-400/kg in Surkhet and that of dried ginger was Rs 250/kg. During the first year the farmers were able to get handsome profits selling the processed ginger and turmeric. Excited by the profit margin in these cash crops other farmers in the locality also got encouraged to farm ginger and turmeric expecting similar prices for the second year. However, during the second year cheaper ginger and turmeric from India came to the Nepalese market reducing the cost to as low as Rs 150/kg for turmeric powder and Rs 100/kg for dried ginger. Increasing large scale cultivation of these cash crops in India hampered the market in Nepal and the subsistence setting entrepreneurs have been affected the most. After the unexpected drop in the price of ginger and turmeric the equipment of the CFC have been moved to the district head quarter where they are rented for processing other herbs and spices.

### *c) Source of Finance*

In order for the subsistence setting citizen to take benefit from the entrepreneurial opportunities they have to have a source of finance to start their enterprise. After the enterprise is started more funding is constantly required for it to scale up and sustain. People in the subsistence setting who aspire to be entrepreneur lack any kind personal or family savings or assets that can be utilized to start their enterprise. Therefore they are not in a position to start any kind of entrepreneurship without getting financial help from external agencies. In Nepalese context these external agencies are various government and non-government financial institutions. At national level there are 32 commercial banks, 90 development banks, 67 finance companies, 25 micro finance development banks, 16 credit and cooperatives (limited banking), and 34 loan based NGOs in Nepal (NRB 2013). Among these institutions only micro finance development banks, credit and cooperatives, and NGOs are the financial institutions that are accessible to the entrepreneurs in the subsistence setting. The micro finance development banks and credit and cooperatives require collateral or an evidence for source of regular income for providing loan. Therefore they are mostly useful only when the enterprise is started and makes regular income. It is only the NGOs, such as MEDEP, that have provision for financial support without collateral for beginner entrepreneurs. These NGOs usually combine their financial assistance program with capability development, skills training, and physical space and technology transfer to ensure their regular income and the pay back of the loan. These mentioned financial institutions are mostly concentrated in densely populated areas such as the district headquarters and bigger towns and cities. For the poor people in rural and remote areas they are not easily accessible. Often times the official practicalities and paper works that is involved in the loaning process in these institutions is too tedious for the illiterate subsistence setting borrowers. Therefore some dedicated entrepreneurs resort to informal private loan with high interest whenever they observe an opportunity with immediate and high return. The availability of such private loans will again be contingent to how much trust the entrepreneur is able to garner from the person loaning the money. To mitigate the problem of accessibility, tedious formalities, and excessive interest rates for getting the loan the entrepreneurs in the subsistence setting form their own local saving groups and cooperatives where they would deposit certain amount of cash regularly on monthly basis which could be used as loan among themselves. In the case of entrepreneurs of the CFCs, each CFC had one saving group or a cooperative.

Although provision of such groups is fruitful for ensuring savings for the entrepreneurs, it has some limitation for addressing appropriate credit demand for the aspiring and growing entrepreneurs. Such groups accumulate capital only when the entrepreneurs start making regular income therefore they are not able to provide credit to its members until enough capital is collected from the savings. At the beginning of the entrepreneurship process when entrepreneurs are yet to make any regular income to save in such groups the entrepreneurs

still have to be dependent on external agencies such as the NGOs for financing their enterprise. Similarly if a CFC has very few members the saving from them will be very small to provide significant loan that will help improve the enterprise. In such small saving groups the loans are mostly very small and can be utilized only for petty expenses of family and not for scaling up the enterprise.

With the increasing trend among the young and adult male members of the subsistence setting to go abroad for finding jobs some women entrepreneur have found a source of finance in the remittances they receive from their husbands to enhance their enterprises.

#### **5.1.4 Social-Cultural-Political Environment**

Undoubtedly, society and culture show direct manifestation in our behavior because we are born and raised in the norms and belief system set by them (Hofstede, 1980). They influence the personal values of individuals and influence their action. These influences come from the grass roots of the social system and have bottom up effect in people's behavior. The societal and cultural traditions that have been practiced for generations also have useful knowledge and practices which can become source of entrepreneurship. The political environment, especially in a country like Nepal which has been going through many severe political upheavals and is struggling to establish a proper governance system, affects the entrepreneurship behavior of people in top down manner through bureaucracy, economic policy, and governance in general. People's short term and long term expectations about their wellbeing are dependent on these elements of political environment and they set their behavior accordingly. Therefore, formal and informal influence of social-culture-political environment can support or inhibit entrepreneurial behavior at individual level (Hayton et al. 2002, Zhao et al. 2012). Sometimes they serve as opportunities and other times as a hindrance. In this section I will present the findings on how Nepalese subsistence setting entrepreneurship is affected by its social-cultural-political environment.

##### **a) Traditional and Indigenous Knowledge**

Presence of diverse ethnic groups and indigenous groups is the characteristic of Nepalese society. The subsistence setting in Nepal is more representative of the ethnic groups and indigenous groups. Each of these groups has their unique skills and knowledge that can be transformed into entrepreneurship. For example, the *Kami* ethnic group comprises of traditional blacksmiths, the *Kumhars* are known for their expertise in pottery, the *Damais* are have expertise in sewing and traditional musical instruments. With some capability development in terms of technical financial resources and business skills their knowledge can be commercialized. A part from practical skills these indigenous groups have their unique costumes, cuisines and lifestyles. They also have the expertise in producing these unique

elements of their culture. With a touch of innovation and creativity these expertise can easily become entrepreneurship opportunities for people from these groups. In this research entrepreneurs from the several indigenous groups were found to have taken advantage of their traditional and indigenous knowledge. Indigenous *Magars group* from both Parbat and Surkhet districts were observed to have successfully used their skills in their making their traditional fabrics. In Surkhet district ethnic group *Kami* were observed to have used their blacksmith skills as a source for entrepreneurship. Advantage of developing traditional knowledge as enterprise is that the foundation of skills is already there among the people and it does not need as much capability development as it needs for starting entrepreneurship from scratch.

### **b) Lack of Entrepreneurial Tradition**

Entrepreneurship means industriousness, coming up with new ideas and innovations, and actively trying to overcome obstacles and difficulties (Kulawczuk 1998). Livelihood of Nepalese society has been heavily dependent on subsistence agriculture. The dependence on agriculture has been more in the subsistence setting population of the country. Their general tradition has been to work in the fields during the cultivation and harvesting seasons and work as a manual labor during the rest of the year. Although some ethnic groups and castes have their indigenous handicraft, tool making, and other specific skills, traditionally they would use such skills in exchange for staple agricultural products. They would not use such skills for creating products and services in order to sell for money. Another aspect to this phenomenon is that these groups with such special skills in the rural subsistence setting of Nepal have been from the lower castes. They have been traditionally suppressed by the upper castes. Their skills were lowly valued and were restricted to use only for bartering with the crops and no financial exchange was practiced. Therefore traditionally the subsistence Nepalese society revolving around agriculture lacks the entrepreneurial and business mindedness.

“The entrepreneurial tradition also covers such intangible aspects as the ability to establish business partnerships and sustain them, develop long-term bonds with business partners, and develop trust between suppliers and consumers” (Kulawczuk 1998,p 99). These attributes have not been traditionally known to the subsistence setting people who aspire to be an entrepreneur. The concepts of business, profit-loss, innovation, competition are not typical in the setting therefore entrepreneurship is not intuitive for these people.

Another traditional characteristic of subsistence Nepalese society is that it is not individualistic. The family relationships are very intimate and people are used to living in large joint families. In such conditions being financially dependent on the family income and not having a separate source for personal income has been an acceptable practice. Acceptance to dependence on others inhibits individual entrepreneurship. Such an affinity for a group is also associated with fear of failure, negative public attitude towards creativity and innovation, sense of isolation,

resistance to change in the society, and a lack of feedback (Mueller & Thomas 2001, Drucker 1985, Ozgen & Minsky 2007). These behaviors serve as the socio-cultural obstacles that contribute to the lagging entrepreneurial tradition in the subsistence setting of Nepal.

### **c) Vulnerable Political Environment and Migration**

Nepal has gone through a lot of political turmoil in the last two decades. Various government systems, about two dozen governments and one civil war that took lives of more than 10000 civilians occurred during this period of turmoil. This chaotic political environment has severely hampered the economic and social structure of the country. Among all, the people at the subsistence settings have been hit the hardest because of this situation (Koirala et al. 2005). The political instability has resulted in poor economic growth, corruption, poor governance, and poor policy which have had negative impact on entrepreneurship activities in the country in general, and mostly in its subsistence setting. The vulnerable political environment has most direct effect on entrepreneurship of the Nepalese rural subsistence setting through change in population composition due to internal and external migration. Currently about 400000 Nepalese per year, most of them from among the poor ones, migrate to the third country in search of job (this excludes India for which the migration is not documented) (Gov of Nepal 2013). Almost all of the interviewed CFC entrepreneurs reported to have had at least one member from their household who had migrated in search of temporary job. Most of the reported migration was either in India or some Middle-Eastern country. The migrating members of the household are mostly the young and adult male. Therefore in the rural subsistence setting of Nepal it is quite common to see the demographics composed of only elderly people, women and children. This is also true for the entrepreneurs of the CFCs participating in this research.

Women, children and elderly population are the least empowered group in Nepalese subsistence setting. This has created a lack in supply for the innovative and competitive manpower which is essential for entrepreneurship. With their husbands migrated for work the women also have the responsibility of taking care of their household and children which makes it difficult for them to find enough time for their enterprise. The family obligations make their enterprise as a secondary priority. Once they start receiving remittance from their migrated family member the enterprise often becomes the secondary source of income. This has direct impact on the long run entrepreneurial motivation of the individual, and competence and scalability of the enterprise.

The migration process that started as the result of unstable political environment has become a general popular trend among the youths with impoverished background. People are inclined to do these jobs abroad because they provide immediate steady income and require only physical

labor as skill to get started. Despite the fact that these jobs abroad are harsh, inhumane and lack adequate payment, the fantasy of going abroad, being in a big city and possibility for quick and steady cash attracts the productive youth. Whereas for entrepreneurship mere physical labor is not enough, it demands constant innovativeness and creativeness in finding and creating opportunities, the financial gains are not immediate and are not guaranteed as well. In that sense entrepreneurship appears more risky affair and therefore the youth end up choosing to go abroad for menial jobs as opposed to starting their enterprise. This condition at community and household level subsistence setting inhibits the entrepreneurship process. However, for the individuals who chose to stay in the community for entrepreneurship it is advantageous because with all the migration suddenly they have less competition and have more opportunities.

Figure19:

Ganesh Prasad (first from right) is a MEDEP EDF from Parbat districts. He is one of the experienced EDFs in the districts and works with more than a dozen CFCs from every corner in the district. According to him migration plays a crucial role in determining the fate of entrepreneurship among the subsistence population in the district.

*"Even for people who have nothing to use as collateral it is easier to get a private loan when they plan to go abroad for a job compared to starting an entrepreneur. For the loaner investing in an enterprise, i.e. a borrower with not much qualification and experience, is more risky as opposed to a loaning for a borrower who gets steady income from a job abroad. The same logic of less risk applies for the borrower as well. This is why most of the young boys and men from the poor family are opting for going abroad. Only women and elderly people are left in the villages who are joining our entrepreneurship program. Naturally when men are not home the women also have to be in charge of the household affairs and their children. It is difficult for them to pay full attention to their enterprise and they are not able to rip all the benefits from it"*, says Ganesh.

He gives example of three entrepreneurs, **Bhawisara BK, Sita Sapkota and Guma Lamichane** (left to right in the picture) who started their tailoring enterprise in 2008 in Milanchok Multipurpose CFC in Parbat District. Among them husbands of Bhawisara and Sita went abroad in search of jobs. With more commitment required for the family they were not able to pay much attention to their enterprise. Also the quick and steady remittance from their husbands

to support financial needs made them less motivated to work in their enterprise. Eventually their enterprise became merely a part time priority for them. Guma's family did not have issues with migration so she was able to pay more attention to her enterprise. After five year Guma is the only one among three of them who has taken her enterprise to more professional level both in terms of her skills development and income.

The growing trend of migration among the youth population was reported to have had a negative impact on entrepreneurship was reported to be one of the Talk about how it was observed that migration trend has become a challenge for entrepreneurship

### 5.1.5 Geography and Ecology

Although the selected districts for this research, Parbat and Surkhet, are not considered the most remote districts of Nepal in terms of geographical location, most of the CFCs in this study were located in the remotest areas of the district. Most of the subsistence population in Nepal in general is from the most rural and geographically difficult terrain of the country (Do et. al. 2009). The geography and ecology of the entrepreneurs' location served both as a barrier and as a resource for their entrepreneurship.

The localities of the entrepreneurs are separated by difficult hills, rivers and thick forests from the larger towns and cities. These isolated settlements have low population and are scattered over a large area. The settlements in the hillside are barely connected with roads. The roads, if any, are functional only in the dry season since they get swept away by erosion during the rainy seasons. Most of the CFCs visited in the research were a couple of hours' to a day's walk from the motorable road. In this situation transportation of raw materials required for their production is not just difficult but also very expensive. Once their products are ready it costs them extra amount to bring them to the retailers in the market place making their products more expensive and less desirable. The distance also causes them to reduce the frequency of supply deliveries which negatively influences the "liquidity of enterprises such as the retail units and wholesales" (Kulawczuk 1998). It makes them difficult to stay competitive in the market. Remote geographical location is not just detrimental to transportation of goods and services but also for communication. Due to poor communication with the suppliers of raw materials and with their retailers the entrepreneurs are not always up-to-date with the market situation. It is hard for them to really understand what their customer base is and often have to depend on secondary information to gauge the reality.

Poor geographical location means that the financial institutions such as the commercial banks, cooperatives, micro-creditors and other support mechanisms such as MEDEP officials, the

government offices, and other NGOs are also away from them. The entrepreneurs reported that they are less likely to get enough attention, or timely service when required due to these institutions being away from the enterprise location. Remote geographical location also means that if the entrepreneurs want to use their property as a collateral for borrowing loan it will be valued very poorly.

On the other hand a remote and unexploited geographical location can be a good resource for an enterprise if enough attention is provided in researching the production possibilities of those resources while planning for the enterprise. The tropical forests of the hills and the plains of Nepal are home to a wide variety of flora and fauna which can become a source of raw material for varieties of enterprise. The exotic medicinal herbs and animal products from the foothills of the mountains have a big demand in local and international market (Sharma and Shrestha 2011). The rivers and streams are also complementary resources for enterprise which can be source of energy for the enterprises via mini and micro hydroelectricity. Similarly, the hills and mountains have always been good destinations for the local and international tourists which can become a good avenue for practicing service based entrepreneurship. A lot of CFCs in this research were observed to convert their seemingly disadvantageous geographical and ecological positioning into very successful entrepreneurship opportunity. In fact these entrepreneurs who were thoughtful in incorporating their geographical and ecological positioning in starting their enterprises, among all others, were reported to have been the most profitable and successful.

Figure 20:

#### **Story of Jas Maya Pun**

Jas Maya is a member of Hampaal Allo Processing CFCs in Salija Village of Parbat District. Salija is located in the foothills of Himalaya that had no access to motorable roads until recently when a dirt road usable only during the dry season was constructed. When Jas Maya started her



natural fiber (bark of Himalayan stinging nettle called *Allo*) enterprise in 2000 she had to walk for the whole day crossing thick forests, hills and streams to reach the nearest settlement with motorable road. Locating in the remote geographical setting starting an entrepreneurship that is based on importing raw materials from outside was not going to be profitable. Instead, with the aid of MEDEP the CFC was established to utilize *Allo* that was abundantly available in the forests. Jas Maya's CFC group received training in collecting the bark of *Allo*, processing it to make yarns, and weaving it to make fabrics. They learnt to make shawls, hand bags, mufflers,

hats, coats and various other articles using the fabric. *Allo* fabric is very much valued in the local and international market and all their products have very good market. Currently, Jas Maya has moved to the district headquarter where she continues to weave different cloth articles by buying the fabric from the CFC group members in Salija. She also runs a small shopping outlet (see picture) that sales the products from all the entrepreneurs affiliated with the CFC in Salija and other part of the district. She sales to local customers, tourists, and retailers in big cities such as Pokhara and Kathmandu. As a veteran entrepreneur of MEDEP she is called for trainings and sharing her skills all over Nepal. In 2012 she received a national social entrepreneurship award for her achievement as an inspiring micro-entrepreneur.

*"In the difficult foothills of mountains where we live *Allo* grows everywhere in the forest. Our decision to use it as source of fiber raw material for our enterprises was a great idea because we don't have to worry about raw material; we don't even have to pay for it! This has helped us to keep us good profit margin. Learning from this experience we have explored many other resources from our own fields and forests to produce all kinds of products. For example we make baskets, stools from bamboo and local wood, and different kinds of pickle, herbs, and spices from vegetables and plants in the forest and fields. People have loved all these products and we are doing a very good business. Before starting these enterprises we cursed our difficult geographical location but now it has been a boon for us! ", says Jas Maya.*

Similar to the story of Jas Maya and other entrepreneurs the CFC from Salija village are those of the entrepreneurs from Samjhana Micro-Enterprise Group (MEG) and Sagarmatha Micro-Enterprise Group in Surkhet. Entrepreneurs from the Samjhana MEG use wild herbs as raw material to extract high value medicinal oil and the entrepreneurs from Sagarmatha MEG use wild fruits to extract oil from them and use it to produce soap.

## 5.2 Bottlenecks of Facilitated Entrepreneurship Programs

### 5.2.1 Dependency Syndrome

The entrepreneurs of the CFCs, from the very first step of their entrepreneurial sensitization to the point where they are able to operate independently, are immensely dependent on MEDEP. In a sense MEDEP spoon feeds them with all the capabilities required for their entrepreneurship. Even when the enterprises have reached the point of being self-sustainable or "the graduates" the MEs don't want to give up on the free service of MEDEP. This has made them extremely risk averse and even when there are obvious profits and scaling up opportunities the MEs expect financial and service aids from MEDEP or other institutions for

exploring such opportunities. The MEs are not taught with the knack of risk taking required to succeed as entrepreneurs. The result is the dependency syndrome. Since MEDEP acts as a guardian institution in the entrepreneurship development process, to some extent it is natural for the entrepreneurs to be dependent on it. However, perpetual help seeking behavior for MEs is not a part of MEDEP model (See appendix 2) therefore dependency syndrome is detrimental for MEs sustainability. The EDFs who have all the knowledge about CFCs' production capability, their marketing network and profitability tell that the MEs in a bid to receive more aid tend to highlight more failures and shortcomings of their CFCs and less success. General motivation of a lot of MEs in the CFCs is to attract more investment from NGOs and not use their investment in improving the facilities. Although, technically the MEs have the ownership of the CFCs when it comes to strengthening their resources they want to put the financial burden on MEDEP. This is very natural for the MEs of initial stage of development. But for MEs who have been making a steady income not having to put anything at stake and hoping that everything will be done by the EDF or other MEDEP officials is not a good entrepreneurial spirit.

In this kind of facilitated entrepreneurship program it is very crucial that the program implementers have a very defined strategy for exiting their interventions so that the entrepreneurs learn the value of risk taking, opportunity seeking, opportunity creating and independence.

### **5.2.3 Scale up Bottleneck**

Undoubtedly, the interventions of MEDEP via CFCs have brought the MEs to a much better social and economic status compared to their past. MEs of the CFCs, given their current success in enterprising, feel that there is much room for scaling up their enterprises. With enough access to finance, technological capability building, and marketing skills MEs see the opportunity for scaling up of their business. However, the MEs still feel incapable of independently fulfilling these aspirations. Their income and saving is merely enough to run their current enterprise and fulfill their household needs. Their enterprises are not matured enough to receive loans from financial institutions such as the commercial banks, development banks and larger cooperatives. Their saving groups do not have enough funding for financing the scale up. Most of the CFCs of this study were not part of any cooperatives and those which were did not feel strongly towards them because of the fact that they have to share their profit with non CFC members of the cooperative. This made the scaling up less desirable and less motivating for them.

Associated with the lack of finance are other variables crucial for the scaling up such as technology use, proper marketing and branding. MEs of the CFCs are not capable of running any kind of mass media advertisement. They are totally dependent on the basic marketing and sales networking knowledge from the SIYB training and on the expertise of the EDFs. Once the

MEs start to make steady income from their enterprise MEDEP starts to treat them as graduates and hence the help they receive from the EDF is in decreasing order over time. EDF have no extra incentive for taking further steps than the designated ones to create extra values for the MEs. MEs who are generally illiterate and semi literate women are thus stuck with the basic marketing and networking knowledge which is not enough for scaling up their current enterprise. And there are relatively older MEs who tend to be less motivated to learn skills of staying strong in business competition. The result is the scale up bottleneck for the MEs of CFCs. MEs know that there is potential for growth but are unable to exploit the opportunity.

#### **5.2.4 Lack of strong MEDEP brand**

The objective of MEDEP is to incubate entrepreneurs and enterprises that are sustainable on their own. MEDEP's strategy for achieving this goal is through comprehensive capability development in different aspects of enterprise development. However it is worth noting from the observations of this study that entrepreneurship is not just about capability development. Capability development has to be compensated by equal amount of motivation and responsibility by the MEs which is something that cannot always be taught. Although MEDEP does thorough background preparation to identify potential entrepreneurs not all the selected ones become the ideal independent entrepreneurs. Some entrepreneurs inherently need perpetual support from MEDEP for sustaining. Observed dependency syndrome and scale up bottleneck in the entrepreneurship development process indicate toward such a need. The need is more apparent in the marketing and sales aspect of entrepreneurship. If there is proper marketing and sales the entrepreneurs can specialize only in production sector, they will have proper cash flow, which will make them more bankable and more likely to scale up. One way of addressing entrepreneurs' perpetual need for support from MEDEP is by MEDEP establishing a sales platform with strong brand image that takes care of sales and marketing for the entrepreneurs. Saugat Griha is the marketing and sales platform established and promoted by MEDEP initiative. It is supposed to be a national brand representing more than 60 thousand entrepreneurs of MEDEP. However the presence of Saugat Griha, both in district level market and national market, is very insignificant. Chandra Nepali, the general manager of Saugat Griha, mentioned that its national outlet in Kathmandu makes sales of only about Rs 10000 per day ( equivalent to about \$100). Being run under the national union of micro entrepreneurs called National Micro Entrepreneurs Federation Nepal (NMEFN), Saugat operates under a modality of NGO and therefore lacks business like management and entrepreneurship, the result is very poor sales and poor revenues. Because of this the micro entrepreneurs have not found Saugat to be a reliable sales platform for their business. However, in a country like Nepal where patriotism is probably the most revered characteristic, Saugat has a potential for transforming

into a strong national brand by catering Nepalese citizen with products from their origin and therefore contributing to the growth of micro entrepreneurs.

One of such good examples is that of centralized sales system of BRAC in Bangladesh. Although BRAC is a not for profit organization it operates its sales outlets, Aarong, as a pure business. Aarong "has become the foundation upon which independent cooperative groups, family artisans and individual entrepreneurs market their craft, in an effort to position Bangladesh's handicraft industry on a world platform of appreciation and acknowledgement." (BRAC 2013) Using Aarong products among the Bangladeshis has become a symbol of national pride and patriotism while the business keeps growing significantly every year. BRAC's centralized business via Aarong makes its management and the production process more efficient, productive, and systematic. This model brings the best out of branding and distribution process as marketing and sales is done under one identity. It also makes quality control more effective. For customer shopping varieties of product under one roof brings ease and in long run creates proper business relationship and trust which is the key to sustainable business. For the producers not having to deal with demanding and complicated sales and distribution aspect of entrepreneurship allows them to harness maximum benefit by specializing in their production. The availability of modern design from professionals, quality control, and systematic and regular research for constant enhancement of the entrepreneurship process by Aarong and BRAC creates ample opportunity for scaling the enterprise for entrepreneurs and Aarong alike. MEDEP model should incorporate the systematic centralized business model of Aarong in Saugat in order to maximize the impact and efficiency of CFCs and micro entrepreneurs.

## 6 CONCLUSION

Facilitated entrepreneurship development program as an intervention for poverty alleviation has been an effective tool in the context of Nepalese subsistence setting. Entrepreneurship development program directly impacts poverty alleviation through increasing the income level of the beneficiaries. This increment in income also trickles the empowerment of various other aspects of beneficiaries' wellbeing such as education, healthcare, social-political status and identity. Therefore, enabling the impoverished ones in subsistence setting to start their own business is indeed a sustainable method of poverty alleviation.

Sustainability and meaningful impact of the facilitated entrepreneurship program is ensured when the program is holistically designed to address all the factors affecting the entrepreneurship process and its unavoidable bottlenecks. Unlike in the capital, resource and technology abundance mainstream economic setting, in the diverse Nepalese subsistence setting where the idea of market and trade are constantly evolving there are multitudes of factors that constantly affect the process of entrepreneurship. These factors are also

interconnected with each other and therefore role of one factor cannot be overlooked while understanding the role of the others.

At individual entrepreneur level in the subsistence setting it is the needs, capability and motivation of the entrepreneur that affect their entrepreneurship journey and hence the effectiveness of the facilitated entrepreneurship development program. The recognition of and urgency to fulfill the needs instigate the subsistence setting population towards entrepreneurship. Unlike mainstream economic setting where entrepreneurship is pursued for fulfilling higher quality needs of self-recognition and identity, in the subsistence setting it is the basic needs of fulfilling day to day livelihood that prompts entrepreneurship. Educating and sensitizing the subsistence population about wellbeing of life helps them to create the urgency for fulfilling the needs. Once the needs are recognized it is through technical and adaptive capability of the individual that they can opt to become an entrepreneur. Providing mentorship and training on and accessibility to technology, technical ability, financial strengthening are some of the ingredients of capability building for entrepreneurship. However, Key driving force for entrepreneurship at individual level is the motivation of the entrepreneur towards constantly upgrading themselves in the hierarchy of needs and their capability development. By creating understanding about need in a subsistence individual and making them capable through some training it is possible to create a system called enterprise that will run in some manner with some routine practices. These routine practices, however, are not enough to bring the essential growth and enhancement of the enterprise system (the system of production and/or consumption (Praag 1999)) which is crucial for its sustainability in a competitive market. Motivation for maintaining the growth of the system by being constantly innovative on the taught routine practices is what differentiates entrepreneurs from others. The *modus operandi* of routine practitioners is static and they do not seek incremental values from their business whereas *modus operandi* of real entrepreneurs is a flux and they seek incremental values from their business by bringing creative destruction in their enterprise system (Herbert and Link 1989).

At enterprise level in the subsistence setting it is the technology, management of the enterprise and its business differentiation that matter the most for the success of the enterprise and hence for the effectiveness of the facilitated entrepreneurship programs. In the beginning of the enterprise development the technology used in the enterprise are and can be very basic ones. But in order to ensure the sustainability of the enterprises it is crucial that its technology is on a par to bear the competition from other enterprises. Proper management of different aspects of enterprise such as quality control of production, relationship with suppliers, retailers and other entrepreneurs is crucial. In facilitated entrepreneurship program certain type of production process is inducted in mass to the beneficiaries; the crux of the success of the

entrepreneur therefor often lies in their ability to differentiate their offering from others within their group and outside.

Economic environment and support system in subsistence setting affect its entrepreneurship process in different manner. The micro economic environment serves as a source of opportunity in the subsistence setting. Since the concept of free market is new and gradually developing in the subsistence setting entrepreneurs can easily benefit from simple innovations that are closer to the core necessities of people unlike in the developed markets where entrepreneur need to innovate at fringes of the economy (Lingelbach et. al 2005). Micro economic environment also consists of stakeholders such as suppliers, retailers, marketing avenues essential for entrepreneurship. In open markets the macroeconomic positioning of the subsistence setting also determines the fate of its entrepreneurs. Open market brings potential for larger customer base for subsistence entrepreneurs given that they can build enterprise around something that they have competitive advantage on. It also brings competition with larger enterprises which can easily wipe out subsistence entrepreneurs utilizing the advantage of their economies of scale. Subsistence entrepreneurs have nothing to make financial contribution to begin their enterprises. Even long after their enterprises are set up via facilitation they are deemed too small for being bankable by commercial banks and the loans they receive from the saving groups and cooperatives (if they are part of one) are not large enough for scaling up their enterprises. The subsistence entrepreneurs are in a vicious cycle where they cannot scale up because they don't have access to finance and cannot have access to adequate finance because they are not large enough.

Social-cultural-political environment provides its own ingredients to determine the fate of facilitated entrepreneurship program in the subsistence setting. Traditional and indigenous knowledge of producing goods and services provide subsistence entrepreneurs with opportunities for enterprising. With some capability development in terms of technical and financial resources and business skills their knowledge can be commercialized. However, it needs entrepreneurial and industrious mindset and motivation in the individual to transform their traditional knowledge into an enterprise. In the subsistence setting livelihood is heavily dependent on agriculture and traditional craftsmanship, and skills are used only for exchange of staple crops and other goods. In these kind of closely knit societies where dependence on each other is not just inevitable but also accepted there is no concept of profitmaking, innovation, and competition as the result there is a lack in entrepreneurial mindset (Mueller & Thomas 2001, Drucker 1985, Ozgen & Minsky 2007). Political instability affects the entrepreneurship environment in many different levels from distorting the macro and micro economic environment, demographic composition via migration, to diminishing entrepreneurial mindset.

The geography and ecology of the subsistence setting provides serves both as a barrier and an opportunity for facilitated entrepreneurship programs to be implemented there. Difficult geography means poor development of infrastructures and poor accessibility to market, financial institutions and other stakeholders necessary for enterprise. On the other hand the natural resources provide resources and opportunities for entrepreneurship. Unique and mostly commercially unexploited ecology of subsistence setting provides competitive advantage for starting new enterprise. Tapping into these competitive advantage leads to a sustainable and profitable enterprise.

The interplay of various components of entrepreneurship ecosystem in subsistence setting creates some bottlenecks that diminish the impact and sustainability of enterprises incubated through facilitated entrepreneurship program and potentially the program itself. Most crucial of such bottlenecks is the dependency syndrome that develops in the beneficiaries of the program as the result of the interventions being spoon fed to them without creating proper ownership of the enterprise in them and not having proper exit strategy. Risk taking, opportunity seeking, opportunity creating and independence should be part of the mentorship in the program to avoid dependency. Entrepreneurs and program implementers are often comfortable with a slight betterment of their well-being brought by the program interventions as the result opportunities for enterprise scaling up are untapped. For the ones who are motivated the scale up bottleneck is due to lack of access to marketing, finance, and technology. For a lot of the subsistence entrepreneurs the dependency syndrome and scale up bottleneck is inevitable which necessitates or brings an opportunity for the entrepreneurship development programs to intervene through establishing a strong centralized marketing mechanism such as that of Aarong by BRAC in Bangladesh. The centralized marketing and branding makes the management and the production process more efficient, productive, and systematic both for the entrepreneurs and the customers.

This research puts together different theories of entrepreneurship to add to the knowledge of how facilitated entrepreneurship development programs in subsistence setting can be implemented or improved. It is quite clear that there are multitude of factors and their interactions in entrepreneurial ecosystem of the subsistence setting to be considered for meaningful implementation of the entrepreneurship program. The second part of this research only contributes to identifying the bottlenecks of facilitated entrepreneurship programs under the assumption that subsistence enterprises should be more growth centric for sustainability. There needs to be more detailed research on if the argument of perpetual growth is valid in the case of subsistence entrepreneurs especially in the context of competitive free market. Conclusions of these research would be complemented with future researches on what would be the best exist strategies for the facilitated entrepreneurship programs. Research on right

methods for mentoring and nurturing sense of risk taking and independence in the beneficiaries of these kinds of programs would be another potential research avenue.

## REFERENCES

- Acosta, P., Lartey, E. and Mandelman, F. (2009). Remittances and the Dutch disease. *Journal of International Economics*, 79(1), pp.102-116.
- Acs, Z. J., (1992). Small Business Economics: A Global Perspective, *Challenge* 35 (November/December), 38–44.
- Acs, Z. J., 2007, 'How is Entrepreneurship Good for Economic Growth?' paper presented at the 25<sup>th</sup> Economic Conference of Progress Foundation held on October 31, 2007, Great Barrington, Massachusetts. Viewed on 20 July 2014,  
[http://www.progressfoundation.ch/PDF/referate/185\\_Lecture%20Zoltan%20J.%20Acs%2031.10.07.pdf](http://www.progressfoundation.ch/PDF/referate/185_Lecture%20Zoltan%20J.%20Acs%2031.10.07.pdf)
- Acs, Z.J. and L. Szerb (2009) 'The Global Entrepreneurship Index (GEINDEX). Apr., 2009'
- Ayodele, T., Cudjoe, F., Nolutshunya, T.A., Sunwade, C.K., (2005). African Perspective on Aid: Foreign Assistance will not pull Africa Out of Poverty. *Economic Development Bulletin* No. 2. Cato Institute. viewed on 25 March 2014  
[http://www.cato.org/publications/economic-development-bulletin/african-perspectives-aid-foreign-assistance-will-not-pull-africa-out-poverty#\\_edn14](http://www.cato.org/publications/economic-development-bulletin/african-perspectives-aid-foreign-assistance-will-not-pull-africa-out-poverty#_edn14)
- Bendixen, E., Migliorini, E (April 2006). Entrepreneurship and Women: The Making of a Business Plan for the Creation of Distribution Business in Denmark. *Aarhus School of Business*. viewed on 20 September 2013 < <http://pure.au.dk/portal-asb-student/files/1617/000147503-147503.pdf>>
- Bista, D. (1991). *Fatalism and development*. 1st ed. Calcutta [India]: Orient Longman.
- BRAC, 2013, accessed 1 December 2014, < <http://www.brac.com/>>
- Brenda Bushell (2008). Women Entrepreneurs in Nepal: What Prevents Them from Leading the Sector?, *Gender & Development*, 16:3, 549-564, DOI:

Bruno, A. V., & Tyebjee, T. T. (1982). The Environment for Entrepreneurship. In C. A. Kent, D. L. Sexton, & K. H. Ves-per (Eds.), *Encylopedia of entrepreneurship* (pp. 288-307). Englewood Cliffs, NJ: Prentice-Hall.

Bula, Hannah Orwa (2012). 'Evolution and Theories of Entrepreneurship: A Critical Review on the Kenyan Perspective'. *International Journal of Business and Commerce*. Vol.1, No 11: July 2012[81-96]

Calvo, JCA & Garcia GM (2010), Established Business Owner's Success: Influencing Factors. *Journal of Developmental Entrepreneurship*. Vol. 15, No 3 (2010), 363-386

Carree, M. A., & Thurik, A.R. (2003). The Impact of Entrepreneurship on Economic Growth. In Z.J. Acs & D.B. Audretsch (Eds.), *Handbook of entrepreneurship research* (pp. 437-471). Boston, MA: Kluwer Academic Publishers

Casson, Mark (1982) *The Entrepreneur: An Economic Theory*, Oxford: Martin Robinson

Cauthorn, Robert, (1989). Contribution to a Theory of Entrepreneurship, Ph.D. Thesis, Tulane University, 1963, London/New York: Garland Publishing.

Deakins, D., Freel, M. (2003). *Entrepreneurship and Small Firms*. Third Edition. Published by McGraw-Hill Education: 362p.

Do, Q.T., and Iyer, L., (2009). *Geography, Poverty and Conflict in Nepal*. Harvard Business School working paper 07-065, viewed on 25 April 2014,  
<http://www.hbs.edu/faculty/Publication%20Files/07-065.pdf>

Dubson Esther, (2013). A Critical Review of the Effectiveness of MEDEP Phase II in Reducing Poverty among the "Ultra Poor" and Socially Excluded of Rural Nepal. *Micro-Enterprise Development for Poverty Alleviation, Volume II*. MEDEP; Ministry of Industry, Government of Nepal; UNDP. Kathmandu

Dyer, W.Gibb Jr. & Wilkins, Alan L. (1991). Better Stories, Not Better Construct, To Generate Better Theories: A Rejoinder To Eisenhardt. *Academy of Management Review*, 16(4):613-619

Easterly, Williamn (2006). *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, Penguin Books, NY, p.4

Eisenhardt, K. M. (1989). Building Theories from Case Study Research. *Academy of Management Review*, 14(4):532-550

Eriksson, P., & Kovalainen, A. (2008). 9 Case Study Research. In *Qualitative Methods in Business Research*. (pp. 115-137). London, England: SAGE Publications Ltd. doi: <http://dx.doi.org/10.4135/9780857028044.d66>

Filion, L.J. (2011). Defining the entrepreneur. In: Dana, L.-P. (Ed.) *World Encyclopedia of Entrepreneurship*. Cheltenham, UK and Northampton, MA, USA, Edward Elgar: 41-52.

Gartner, W. B. (2008). Variations in Entrepreneurship. *Small Business Economics*. Vol.31, No. 4 (Dec 2008) pp.351-361

Gartner, W.B. (1985). Conceptual Framework for Describing the Phenomenon of New Venture Creation. *The Academy of Management Review*, Vol. 10, No. 4 (Oct., 1985), pp. 696-706

Geels, F. (2002). Technological Transitions as Evolutionary Reconfiguration Processes: a Multi-level Perspective and a Case-study. *Research policy*, 31(8), pp.1257--1274.

Ghani, E (ed.) (2011). *Reshaping Tomorrow: Is South Asia Ready for the Big Leap?* Oxford University Press & The World Bank, New Delhi, pp. 168-169

Giannetti, M. & Simonov A. (2004). On the Determinants of Entrepreneurial Activity: Social Norms, Economic Environment and Individual Characteristics. *Swidish Economic Policy Review* 11 (2004) pp. 269-313

Government of Nepal, Ministry of Labor and Employment, Department of Foreign Employment (2013). *Annual Report of Labor Migration 2013*, Kathmandu. Viewed on 05 June 2014  
[http://www.dofe.gov.np/uploads/document/FY%20Wise%20Monthly%20DaTA\\_20120725095323.pdf](http://www.dofe.gov.np/uploads/document/FY%20Wise%20Monthly%20DaTA_20120725095323.pdf)

Greener, S. (2008). *Business Research Methods*. Ventus Publishing ApS.

Gunning, J. P. (2004). *The Idea of the Entrepreneur Role as Distinctly Human Action: A History of Progress*. Feng Chia University, Taiwan

Gunning, J. P. (2004). *Isreal Kirzner's Entrepreneurship*. Feng Chia University, Taiwan viewed on 11 November 2013 [http://www.constitution.org/pd/gunning/subjecti/workpape/kirz\\_ent.pdf](http://www.constitution.org/pd/gunning/subjecti/workpape/kirz_ent.pdf)

Hayton, J. C., George, G., & Zahra, S. A. (2002). National Culture and Entrepreneurship: A Review of Behavioral Research. *Entrepreneurship Theory and Practice*, 26(4), 33-52.

Hammersley, M. & Atkinson, P. (2007). *Ethnography: Principles in practice*. Routledge: New York, NY

Healy, Marilyn & Perry, Chad. (2000). Comprehensive Criteria to Judge Validity and Reliability of Qualitative Research Within the Realism Paradigm. *Qualitative Market Research: An International Journal*. 3(3):118-126.

Harvey, M. & Evans, R. (1995). Strategic Windows in the Entrepreneurial Process. *Journal of Business Venturing*, 10, 331–347.

Hebert, R.F. and Albert N. Link, (1989). "In Search of the Meaning of Entrepreneurship," *Small Business Economics*, 1(1), 39-49.

Hofstede, G. (1980). *Culture's Consequences* (1st ed.). Beverly Hills: SAGE.

Howell, R. P. (1972). Comparative Profiles-Entrepreneurs Versus the Hired Executive: San Francisco Peninsula Semiconductor Industry. In A. C. Cooper & J. L. Komives (Eds.),*Technical Entrepreneurship: A Symposium* (pp. 47-62). Milwaukee, WI: Center for Venture Management.

IFAD, (2013). Enabling Poor Rural People to Overcome Poverty in Nepal, *International Fund for Agriculture Development*, viewed on 20 April, 2014,  
[<http://www.ifad.org/operations/projects/regions/pi/factsheets/nepal.pdf>](http://www.ifad.org/operations/projects/regions/pi/factsheets/nepal.pdf)

International Labor Organization (ILO) Nepal, (2005). Dalits and Labor in Nepal: Discrimination and Forced Labour, *Decent Work for all Women and Men in Nepal*, Series 5. ILO, Kathmandu

Johnson S., Kaufman D., Shleifer A. (1997). 'Politics and Entrepreneurship in Transition Economies', *Davidson Institute Research Workshop on the Economics of Transition*, William Davidson Institute.

Kets de Vries, M. (1977). The Entrepreneurial Personality: A Person at the Crossroads. *Journal of Management Studies*, vol 14, no. 1, pp-34-57

Knight, F.H. (1964). *Risk, Uncertainty and Profit* , Sentry Press, New York

Koirala, B., Gyanwaly, R.P., Shrestha, S. (2005). The Relationship Between Political Instability and Economic Growth in Nepal (1975-2003), South Asia Network of Economic Research Institute, New Delhi, India, viewed on 22 April, 2014 <[http://saneinetwork.net/Files/06\\_01.pdf](http://saneinetwork.net/Files/06_01.pdf)>

Krugman, P. (1998). Role of Geography in Development, paper presented at *Annual World Bank Conference on Development Economics*, April 20-21, 1998, viewed 20 April, 2014 <<http://www.signallake.com/innovation/GeographyKrugmanApr98.pdf>>

Kuechle, Graciela, (2013). The Determinants of Effective Entrepreneurial Behavior: An Evolutionary Game Theory Critique, *International Journal of Management*. Vol. 30 No. 2 Part 1. pp. 507-521. June 2013

Kulawczuk, P. (1998). The Development of Entrepreneurship in Rural areas. *The Transfer of Power. Local Government and Public Service Reform Initiative, Budapest, Hungary*, 97-106.

Lingelbach, D., De La Vina, L. and Asel, P. (2005). What's Distinctive About Growth-Oriented Entrepreneurship in Developing Countries?. *UTSA College of Business Center for Global Entrepreneurship Working Paper*, (1).

Liles, P. R. (1974). *New Business Ventures and the Entrepreneur*. Homewood, IL: Irwin.

Low, M.B. & MacMillan, I.C. (1988). Entrepreneurship: Past research and future challenges. *Journal of Management*, 14(2), 139–161.

Ludwig Lachmann, (1976). From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society, *Journal of Economic Literature*, Vol. 14, No. 1 (March, 1976), p. 57

Maslow A.H. (1970). *Motivation and Personality*, 2d ed., Harper & Row, New York.

Micro-Enterprise Development Program (MEDEP),(2010). *Impact Assessment of Micro-Enterprise Development Programme*. GON/MOI/UNDP Lalitpur, Nepal

Micro-Enterprise Development Program (MEDEP) & United Nations Development Program (UNDP) 92010). *Micro-Enterprise, Development for Poverty Alleviation, Volume I*. MEDEP/UNDP, Lalitpur Nepal

The Millenium Development Goals Report (2013), United Nations, viewed 25 March 2014 <<http://www.un.org/millenniumgoals/pdf/report-2013/mdg-report-2013-english.pdf>>

Mises, Ludwig von. (1966). *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company.

Mueller, S., & Thomas, A. (2000). Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness. *Journal of Business Venturing*, 16, 51-75.

National Population and Housing Census, (2011), *Volume 1 NPHC (2011)* Government of Nepal, National Planning Commission Secretariat, Census Bureau of Statistics, Kathmandu Nepal, November 2012, viewed on 20 April, 2014  
< <http://cbs.gov.np/wp-content/uploads/2012/11/National%20Report.pdf>>

Nepal Rastra Bank (NRB), (2013). List of Banks and Financial Institutions. Viewed on 20 June, 2014 < [http://bfr.nrb.org.np/pdffiles/list\\_of\\_BFIs\\_2069\\_Poush\\_in\\_English\\_20691028.pdf](http://bfr.nrb.org.np/pdffiles/list_of_BFIs_2069_Poush_in_English_20691028.pdf)>

Nicolaou, N., and Shane, S., (2009). Can Genetic Factors Influence the Likelihood of Engaging in Entrepreneurial Activity? *Journal of Business Venturing*, 24, 1-22.

Norman R. Smith and John B. Miner (1983). Type of Entrepreneur, Type of Firm, and Managerial Motivation: Implications for Organizational Life Cycle Theory. *Strategic Management Journal*, Vol. 4, No. 4 (Oct. - Dec., 1983), pp. 325-340

Ozgen, E, & Minsky, B (2007). Opportunity Recognition in Rural Entrepreneurship in Developing Countries, *International Journal Of Entrepreneurship*, 11, pp. 49-73,

Pant, B. and Panta, R. K. (2009). Export diversification and Competitiveness: Nepal's Experience. *Economic Review: Occasional Paper*, No. 21, 52-78

Parson, Talcott (1951). *The Social System*. Routledge & Kegan Paul Ltd. London

Patton Michael Q., (1990). *Qualitative Evaluation and Research Methods*: SAGE Publications

Pennings, J. M. (1980). Environmental Influences on the Creation process. In J. R. Kimberly & R. Miles (Eds.), *The Organization Life Cycle* (pp. 135-160). San Francisco: Jossey Bass.

Powell, R.A., & Single, H.M. (1996). Focus groups. *International Journal for Quality in Health Care*, 8(5), 499-504

Praag C. Mirjam Van (1999). 'Some Classic Views on Entrepreneurship). *De Economist* 147, No 3, 311-335, 1999

Ripsas, S. (1998). Towards an Interdisciplinary Theory of Entrepreneurship. *Small Business Economics*, Vol.10, No.2 (Mar., 1998). PP. 103-115

Rosser Jr, J. and Rosser, M. (1995). A Comparison of Comparative Economic Anthropologies. *History of Economics Review*, 23(1), pp.96--107.

Say, J.-B.(1971). *A Treatise on Political Economy or the Production, Distribution and Consumption of Wealth*, A.M. Kelley Publishers, New York (First edition 1803). Viewed on 10 October 2013 < <https://mises.org/books/politicalecon.pdf>>

Schoar, A. (2009). The Divide Between Subsistence and Transformational Entrepreneurship. *NBER Innovation Policy and the Economy*. May, 29, 2009

Schultz, T.W. (1975). The Value of the Ability to Deal with Disequilibria. *J. Econ. Lit.* 13, no. 3 (September 1975): 827–46.

Shane, S., Locke, E. and Collins, C. (2003). Entrepreneurial motivation. *Human resource management review*, 13(2), pp.257--279.

Sharma, P. and Shrestha, N. (2011). *Promoting Exports of Medicinal and Aromatic Plants (MAPs) and essential oils from Nepal*. WTO/EIF Support Programme. Viewed on June 1, 2014 < [http://www.sawtee.org/Research\\_Reports/R2011-04.pdf](http://www.sawtee.org/Research_Reports/R2011-04.pdf)>

Stanworth, M.I.K. & Curran, J. (1976). Growth and the Small Firm- an Alternative View. *Journal of Management Studies*, 13, 95-110

Ed Swedberg, R. (ed.) (2000). *Entrepreneurship: The Social Science View*. Oxford University Press,

Tarascio, V. J. (1985). 'Cantillon's Essai: A Current Perspective', *The Journal of Liberation Studies*, Vol VII, No 2, (249-257)

Thornton, P.H. (1999), The Sociology of Entrepreneurship. *Annual Review of Sociology*, Vol. 25 (1999), pp. 19-46.

Tuladhar, J. (1996. *Factors Affecting Women Entrepreneurs in Small and Cottage Industries in Nepal: Opportunities and Constraints*, International Labor Organization South Asia

Multidisciplinary Advisory Team and Swedish International Development Cooperation Agency

UP ZRS, (2008). *Nepal Tourism Sector Analysis*, University of Perimorska, viewed on 20 April 2014. < [http://asiantour.progetti.informest.it/market\\_analysis/nepal.pdf](http://asiantour.progetti.informest.it/market_analysis/nepal.pdf)

Viswanathan, M., Echambadi, R., Venugopal, S. and Sridharan, S. (2014). Subsistence Entrepreneurship, Value Creation, and Community Exchange Systems: A Social Capital Explanation. *Journal of Macromarketing*, p. 213-226

Waddell, F.T (1983). Factors affecting choice, satisfaction and success in the female self employed. *Journal of Vocational Behavior*, 23: p. 294-304.

Weber, M. (1951). *The Religion of China*. 1st ed. Glencoe, Ill.: Free Press.

Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*. 1st ed. New York: Scribner.

Weber, M. (1958). *The Religion of India*. 1st ed. Glencoe, Ill.: Free Press.

Welter, Friederike, (2011). Contextualizing Entrepreneurship - Conceptual Challenges and Ways Forward. *Entrepreneurship Theory and Practice* , Vol. 35 Issue 1, p165-184.

World Bank, (1991). *Poverty and Income*, Washington, 1991.

World Bank, (2014). Nepal: Country Snapshot, viewed on 20th April, 2014.

<http://www.worldbank.org/content/dam/Worldbank/document/SAR/nepal-country-snapshot-spring-2014.pdf>

Yin, Robert K. (2003). *Case Study Research: Design and Methods*: SAGE Publication

Zhao, X., Li, H. and Rauch, A. (2012). Cross-Country Differences in Entrepreneurial Activity: The Role of Cultural Practice and National Wealth. *Frontiers of Business Research in China*, 6(4), pp.447--474.

## APPENDIX

Appendix 1: Questionnaire for the interview

**The Interview Guide Questionnaire:**

**Human Resource and Human Capital Development via CFC:**

**Members receiving the skills**

- a) Have all the women received necessary skills required for their enterprise?
- b) Have all the men received necessary skills required for their enterprise?
- c) Have all the *dalits* received necessary skills required for their enterprise?
- d) Have all the *janjatis* received necessary skills required for their enterprise?
- e) Have all the marginalized groups received necessary skills required for their enterprise?
- f) Are the marginalized groups prioritized for skill development?

**Members using the skills in CFC**

- a) Have all the women used the acquired skills?
- b) Have all the men used the acquired skills?
- c) Have all the *dalits* used the acquired skills?
- d) Have all the *janjatis* used the acquired skills?
- e) Have all the marginalized groups used the acquired skills?
- f) Do the members use all their skills to run the enterprise?
- g) Is the skill set according to women's interest and necessity?

**Representation in the CFC**

- a) Women's representation percentage in major executive positions?
- b) *Dalit's* representation percentage in major executive positions?
- c) *Janjati's* representation percentage in major executive positions?
- d) *Marginalized group's* representation percentage in major executive positions?

**Economic Capital and Economic Resource Development via CFC:**

**Economic empowerment due to CFC**

- a) All women members have increased their income/ asset after establishing the enterprise? By how much?
- b) All men members have increased their income/ asset after establishing the enterprise? By how much?
- c) All *dalits* members have increased their income/ asset after establishing the enterprise? By how much?
- d) All *janjatis* members have increased their income/ asset after establishing the enterprise? By how much?
- e) All marginalized groups have increased their income/ asset after establishing the enterprise? By how much?

## **Access to credit due to CFC**

### **Number of borrowers using the CFC**

- f) All women members have received credit to run their enterprise?
- g) All men members have received credit to run their enterprise?
- h) All *dalits* members have received credit to run their enterprise?
- i) All *janjatis* members have received credit to run their enterprise?
- j) All marginalized groups have received credit to run their enterprise?

### **Amount of the credit due to CFC**

- a) All women members have received enough credit to run their enterprise?
- b) All men members have received enough credit to run their enterprise?
- c) All *dalits* members have received enough credit to run their enterprise?
- d) All *janjatis* members have received enough credit to run their enterprise?
- e) All marginalized groups have received enough credit to run their enterprise?

### **Type of the financial institution providing credit**

- f) All women members have received credit from a good financial institute?
- g) All men members have received credit from a good financial institute?
- h) All *dalits* members have received credit from a good financial institute?
- i) All *janjatis* members have received credit from a good financial institute?
- j) All marginalized groups have received credit from a good financial institute?

### **Use of the credit**

- a) Women members have used the credit properly?
- b) Men members have used the credit properly?
- c) *Dalits* members have used the credit properly?
- d) *Janjatis* members have used the credit properly?
- e) Marginalized group members have used the credit properly?

### **Credit Payment**

- a) Women members have paid credit on time?
- b) Men members have paid credit on time?
- c) *Dalits* members have paid credit on time?
- d) *Janjatis* members have paid credit on time?
- e) Marginalized group members have paid credit on time?

### **Market Accessibility**

### **Market networking and relationship**

- a) All women members have developed market network and relationship for their enterprise?
- b) All men members have developed market network and relationship for their enterprise?
- c) *All Dalits* members have developed market network and relationship for their enterprise?
- d) *All Janjatis* members have developed market network and relationship for their enterprise?
- e) All Marginalized group members have developed market network and relationship for their enterprise?

### **Production and supply scope**

- a) All women members' production and supply is according to market demand?
- b) All men members' production and supply is according to market demand?
- c) *All Dalits* members' production and supply is according to market demand?
- d) *All Janjatis* members' production and supply is according to market demand?
- e) All Marginalized group members' production and supply is according to market demand?

### **Information on market place**

- a) All women members have received and used information and education on market place?
- b) All men members have received and used information and education on market place?
- c) *All Dalits* members have received and used information and education on market place?
- d) *All Janjatis* members have received and used information and education on market place?
- e) All Marginalized group members have received and used information and education on market place?

### **Market promotion and sales skills**

- a) All women members have pricing, advertising and sales skills?
- b) All men members have pricing, advertising and sales skills?
- c) *All Dalits* members have pricing, advertising and sales skills?
- d) *All Janjatis* members have pricing, advertising and sales skills?
- e) All Marginalized group members have pricing, advertising and sales skills?

### **Success in entrepreneurship**

- a) Do all women members earn enough for their household from their enterprise?
- b) Do all men members earn enough for their household from their enterprise?
- c) Do all *Dalit* members earn enough for their household from their enterprise?
- d) Do all *Janjati* members earn enough for their household from their enterprise?
- e) Do all marginalized members earn enough for their household from their enterprise?

### **Physical Resource Development via CFC Technology and technological skill**

- a) All women members have the required technology and technological knowledge for the enterprise
- b) All men members have the required technology and technological knowledge for the enterprise
- c) *All Dalits* members have the required technology and technological knowledge for the enterprise
- d) *All Janjatis* members have the required technology and technological knowledge for the enterprise
- e) All Marginalized group members have the required technology and technological knowledge for the enterprise

#### **Appropriateness of the technology and the technological knowledge**

- a) The technology and the technical knowledge are appropriate for all women members?
- b) The technology and the technical knowledge are appropriate for all men members?
- c) The technology and the technical knowledge are appropriate for all *Dalits* members?
- d) The technology and the technical knowledge are appropriate for all *Janjatis* members?
- e) The technology and the technical knowledge are appropriate for all Marginalized group members?

#### **Information and education on technology**

- a) All women members receive regular information and education on technology?
- f) All men members receive regular information and education on technology?
- g) *All Dalits* members receive regular information and education on technology?
- h) *All Janjatis* members receive regular information and education on technology?
- i) All Marginalized group members receive regular information and education on technology?

#### **Awareness and use of safety measures**

- a) All women members use safety measures during the use of technology?
- b) All men members use safety measures during the use of technology?
- c) *All Dalits* members use safety measures during the use of technology?
- d) *All Janjatis* members use safety measures during the use of technology?
- e) All Marginalized group members use safety measures during the use of technology?

### **Social Capital Development via CFC**

#### **Economic and social status of entrepreneur**

- a) All women members have raised their economic and social status by their enterprise?
- b) All men members have raised their economic and social status by their enterprise?
- c) *All Dalits* members have raised their economic and social status by their enterprise?
- d) *All Janjatis* members have raised their economic and social status by their enterprise?

- e) All Marginalized group members have raised their economic and social status by their enterprise?

### **Gender and social inclusion**

- a) All women members are active entrepreneurs?
- b) All *Dalit* members are active entrepreneurs?
- c) All *Janajati* members are active entrepreneurs?
- d) All marginalized group members are active entrepreneurs?

### **Representation in the executive board**

- e) All executive committee has required representation of women?
- f) All executive committee has required representation of *Dalits*?
- g) All executive committee has required representation of *Janjatis*?
- h) All executive committee has required representation of Marginalized groups?

### **Representation type and level**

- 1) Presence only
- 2) Follow other's decision
- 3) Can make recommendations and suggestions
- 4) Can make decisions
- 5) Can run all the aspects of program on their own

## **Environmental Capital Development via CFC**

### **Environmental Sustainability**

- 1) Is the enterprise natural resource exhaustive?
- 2) How are the natural resources used?
- 3) Do the CFC and the enterprise running in it deplete the environment?
- 4) What are the environmental externalities and pollutants?
- 5) What actions are being taken to reduce the pollution?
- 6) Does the center take proactive means for environmental protection?
- 7) Are there any training related to environmental awareness?

## **Ownership of the CFC and Enterprises**

- a) Do women members own the CFC or the enterprise?
- b) Do men members own the CFC or the enterprise?
- c) Do *Dalits* own the CFC or the enterprise?

- d) Do *Janjati* own the CFC or the enterprise?
- e) Do Marginalized group own the CFC or the enterprise?

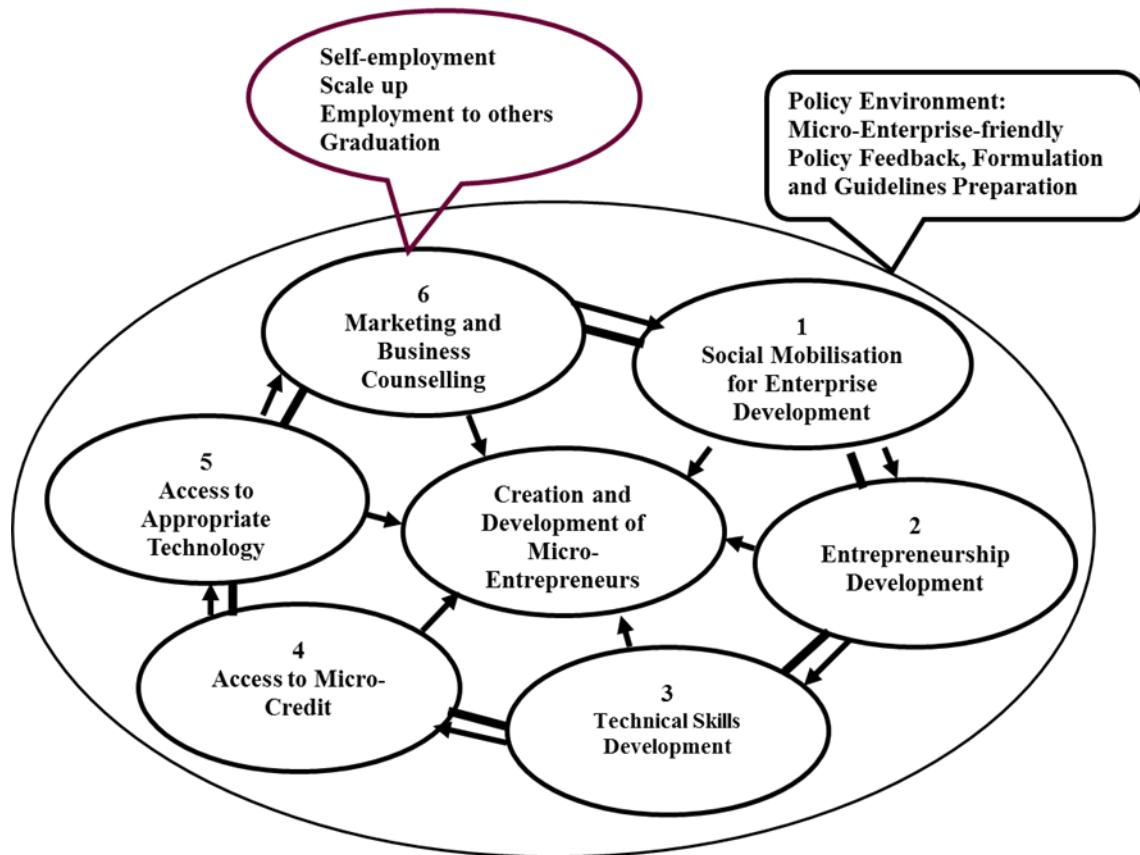
### **Legal Transfer of the CFC**

- a) How many enterprises have gotten the legal status from the CFC?
- b) What has been done to promote individuals and groups to create cooperative and/or private companies?

### **Governance, accountability, transparency**

- 1) How much do you trust the governance of the CFC (i.e. the decision makers)
- 2) How is the accounting and book keeping done?
- 3) Does every member get to question or give opinion about book keeping?
- 4) Does everyone feel comfortable about how the money has been used for CFC?

### **Appendix 2: MEDEP Model**



**Appendix 3** Source: Dr. Lakshman Pun, National Program Manager, MEDEP, 2014

