INSTITUTIONS AND ENTREPRENEURSHIP IN THE NORTH-EASTERN REGION OF INDIA

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ABSTRACT

Entrepreneurship activities in a country are defined by the context of its environment, while this environment is dictated by the interplay of its formal and informal institutions. This study, therefore, aims to establish an extensive review of the literature on the role of institutions on entrepreneurship activity in the North-Eastern States of India. The study further assesses the status of entrepreneurship in the region using MSMEs data from recent government reports. The study reveals that the status of entrepreneurship in the region does not reflect the dynamism of entrepreneurship happening in the rest of the country. The general reason for this is often believed as lack of capital, lack of infrastructure, networking and access to market, etc. However, these are not the only factors that hamper entrepreneurship growth and economic development in the region. Besides these factors, institutional problems hinder growth of entrepreneurship and economic development in the region. The uncertainty and risk created by Institutions have had negative impact on entrepreneurial community. Besides, potential entrepreneurs are discouraged by weak formal institutions and unsupportive informal institutions in the region. To promote entrepreneurship activity there must be congruence between formal and informal institutions.

Keywords: Entrepreneurship, Institution, formal institution, informal institution, MSMEs, North-Eastern region

I. Introduction

Entrepreneurs are the drivers of growth and development in an economy. Their indispensable role in an economy as a creator of jobs and opportunities shapes the economic destination of a country. An institutional setting of a country on which entrepreneurship is based influences its growth and development. Besides, Institutions as social, political and economic entities mould the characteristics and the nature of entrepreneurship. An institutional framework that promotes economic growth incentivises remuneration for productive efforts of individuals in the society.
Likewise an institutional setting amenable to entrepreneurship stimulates the growth of productive entrepreneurship, which in turn enhances the capacity of growth of an economy.

The eight states in North-Eastern India are Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, and Sikkim. The region covers an area of 262185 sq. km which is just about 8 per cent of the country’s total geographical area and it is home to as many as 3.78 per cent of the total population of the country as per 2011 census. The average literacy rate of 78.56 is higher than the national average of 74.04 per cent. While economy comprises largely of primary sector with more than 70 per cent of the population dependant on agriculture for livelihood. Also the region’s economy makes up for about 2.5 per cent of India’s GDP. North-Eastern States are strategically important to the country as 98 per cent of the boundary of these states has international borders.

North-Eastern Region (NER) of India is culturally diverse and each state has its own sets of unique traditions and social institutions. The region’s distinctive culture sets it apart from the other parts of the country likewise in its development space as well the region is lagging behind the rest of the country. The first sincere effort for economic development of the Northeast of India started with the establishment of North Eastern Council (NEC) in 1972. Subsequent steps were undertaken for economic advancement of the region and to encourage entrepreneurship through various north east industrial policies, ministry of Development of North Eastern Region (Doner) and financial institutions such as North Eastern Development Finance Corporation Ltd. (NEDFi). The Northeast is the most institutionalised region in the country. In this region the process of economic development is heavily dependent on institutional factors (formal as well as informal) entrepreneurship is no exception to this.

Literature on entrepreneurship and institutional theory has seen a rising trend over the years in light of the significance of institutions as a catalyst of entrepreneurial growth. Although there are plenty of studies on entrepreneurship activity emphasising the need for capital and infrastructure development in North-Eastern Region yet there are hardly any studies so far on the role of institutions, both formal and informal in promotion of entrepreneurship activity in North-Eastern Region.

Our aim therefore, is to develop the argument on the role of institutions in promotion of entrepreneurship and to establish an extensive review of literature on the role of institutions on entrepreneurship activity in North-Eastern Region. Furthermore, we look into the current status of entrepreneurship in the region.

Our paper is divided into the following sections; section II gives the review methods followed by the current status of entrepreneurship activity in the North-Eastern Region in Section III.
comprehensive review of the extant literature is given in sections IV and V and finally in section VI we conclude our paper with some suggestions.

II. Methodology

First, the study assess the current status of unregistered and registered enterprise in the region by doing a comparison of Micro Small and Medium Enterprises (MSMEs) in the region with respect to India as a whole and also assess the employment opportunities generated by MSMEs. While we also compare the status of MSMEs across the states in the region. Here, MSMEs is used as a proxy for entrepreneurship activity. Further, for the purpose of our review, papers that deal with entrepreneurship through the lens of institutional theory were reviewed. Papers were extracted from journals by applying keywords entrepreneurship and institutions. Papers from edited books have also been reviewed for the purpose of the study.

III. Entrepreneurship activity in North-Eastern Region

In the North-Eastern Region efforts to develop entrepreneurship had started in 1973 with the setting up of district level agencies in Assam known as entrepreneurial motivational training centres (EMTC) to identify, select, and train prospective entrepreneurs and provide them all support services to start and run their enterprises. Subsequently, North Eastern Council (NEC), IDBI, SIDBI and KVIC and other organisations have taken up the responsibility to promote entrepreneurship in the North East (Mali, 2013). The growth of entrepreneurship in the North-Eastern Region has been very slow. The current standing of entrepreneurship in the North-Eastern Region and in comparison with the country as a whole is given in the tables below.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>State</th>
<th>Estimated number of enterprises and Employment (in lakh)</th>
<th>No. of Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Micro</td>
<td>Small</td>
</tr>
<tr>
<td>1</td>
<td>Arunachal Pradesh</td>
<td>0.22</td>
<td>0.00</td>
</tr>
<tr>
<td>2</td>
<td>Assam</td>
<td>12.10</td>
<td>0.04</td>
</tr>
<tr>
<td>3</td>
<td>Manipur</td>
<td>1.80</td>
<td>0.00</td>
</tr>
<tr>
<td>4</td>
<td>Meghalaya</td>
<td>1.12</td>
<td>0.00</td>
</tr>
<tr>
<td>5</td>
<td>Mizoram</td>
<td>0.35</td>
<td>0.00</td>
</tr>
<tr>
<td>6</td>
<td>Nagaland</td>
<td>0.91</td>
<td>0.00</td>
</tr>
<tr>
<td>7</td>
<td>Sikkim</td>
<td>0.26</td>
<td>0.00</td>
</tr>
<tr>
<td>8</td>
<td>Tripura</td>
<td>2.1</td>
<td>0.01</td>
</tr>
<tr>
<td>9</td>
<td>Total of NER</td>
<td>18.86</td>
<td>0.05</td>
</tr>
<tr>
<td>10</td>
<td>All India Total</td>
<td>630.52</td>
<td>3.31</td>
</tr>
</tbody>
</table>

Source: Compiled by the author from NSS 73rd Round 2015-16
The number of unregistered enterprises in the North-Eastern Region accounts for only 2.98 per cent of the country’s total. Moreover, Micro enterprises dominate the sector with 99.73 per cent of the total enterprises in North-Eastern Region. Employment opportunities generated in the MSMEs sector accounts for 2.63 percent of total livelihood created in the country in this area. Further, it is clear from table 1 above that among the states of NER, the highest concentration of unregistered enterprise is in the state of Assam which also happens to provide the largest number of employment. The lowest number of enterprises is in the states of Arunachal and Sikkim.

The opening up of new enterprises indicates a favourable environment for starting up new businesses and the growth of such units in an economy. As per the requirements under MSMED Act, 2006, an individual were supposed to file Entrepreneurs Memorandum (Part-I) at District Industries Centres (DICs) before starting an enterprise while after initiation of production, the individual concerned were supposed to file Entrepreneurs Memorandum (Part-II)/ [EM-II]. In order to promote favourable business environment, an online filing system under Udyog Aadhar Memorandum (UAM) based on self-declared information has been put in place since September, 2015 (Government of India. Ministry of Micro Small and Medium Enterprises, 2019). As per UAM the number of registered enterprises in NER is given in Table 2 below.

### Table 2: State-wise Distribution of Number of registered enterprises by sectors as updated on 26-09-2018

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>State/UT</th>
<th>Estimated number of enterprises</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Arunachal Pradesh</td>
<td>415</td>
<td>311</td>
<td>16</td>
<td>742</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Assam</td>
<td>3011</td>
<td>1181</td>
<td>82</td>
<td>4274</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Manipur</td>
<td>16,292</td>
<td>2,664</td>
<td>38</td>
<td>18,994</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Meghalaya</td>
<td>1202</td>
<td>103</td>
<td>6</td>
<td>1311</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Mizoram</td>
<td>1166</td>
<td>352</td>
<td>20</td>
<td>1338</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Nagaland</td>
<td>395</td>
<td>128</td>
<td>6</td>
<td>529</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Sikkim</td>
<td>280</td>
<td>127</td>
<td>26</td>
<td>433</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Tripura</td>
<td>2940</td>
<td>379</td>
<td>13</td>
<td>3332</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Total of NER</td>
<td>25701</td>
<td>5245</td>
<td>207</td>
<td>31153</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>All India Total</td>
<td>4682814</td>
<td>543730</td>
<td>21287</td>
<td>5247831</td>
<td></td>
</tr>
</tbody>
</table>

*source: compiled by author from NEDFi databank journal*

The above table 2 shows us the number of enterprise with Udyog Aadhaar Number (UAN). Manipur has the highest number of enterprises with UAN followed by Assam. On the other hand Sikkim and Nagaland has the lowest number of enterprises with UAN. The total number of enterprise with UAN in NER is not even 1 per cent of the country’s total registered units of enterprises. It is clear from the figures in the two tables that growth of entrepreneurship in NER
is sluggish and it does not reflect the dynamism of entrepreneurship happening in the rest of the country.

The share of enterprises with UAN of each state is given in the figure 1 above. Manipur constitute more than 60 per cent of enterprise followed by Assam and Tripura with 13.72 and 10.70 per cent respectively. These three state accounts for bulk of the share of registered enterprise in the region. The remaining five states of the region constitute mere 15 per cent of the registered enterprise. It is evident from Figure 1 that the concentration of enterprise in the states of NER is unequal.

IV. Institutions and entrepreneurship activities

In the growth and development theories, the role of entrepreneur was often taken for granted. It was Schumpeter (1934) who first highlighted the critical role of entrepreneur in the process of economic development. According to him an entrepreneur is an innovator. The word ‘Entrepreneur’ is a French word. It refers to someone who carries out a business venture. According to Sobel (2008) the first possible academic usage of entrepreneur was in 1730 by Richard Cantillon, who acknowledged the keenness of bearing the personal financial risk of a business venture as the essential characteristic of an entrepreneur. Subsequently economists like Jean-Baptiste Say, John Stuart Mill, Joseph Schumpeter, Israel Kirzner and others further developed the academic understanding of entrepreneurship. Institution on the other hand is referred to as the constituted rules of society that structure political, economic and social interaction. Institution consists of both formal institutions as well as informal institutions. Formal institutions are constitutions, laws, property rights etc and Informal institutions are such as sanctions, taboos, customs, traditions, and codes of conduct,(North, 1991).
It is commonly accepted that entrepreneurship drives economic growth and development (Baumol, 1990; Audretsch et al., 2006; Acs et. al, 2008; Aparicio et. al, 2016). Entrepreneurship influences development outcomes positively as well as negatively and entrepreneurship is in turn significantly determined by the dynamics of development (Naude, 2013). The entrepreneurship activity in a country is defined by the context of its environment. This environment on the other hand is dictated by the interplay of its formal and informal institutions of the country. Entrepreneurial activities differ extensively across societies. These differences are an important factor for varying degrees of economic development across nations. The differences in entrepreneurial activities across nations are largely due to differences in institutional environment in which entrepreneurs shape and operate based on opportunities available at any point in time (Boettke and Coyne, 2009). According to North (1990), the answer to fundamental issue of economic development is in the progress of political and economic institutions that create an economic environment for increasing productivity. Institutions to him are “Rules of the Game”. Entrepreneurs work within an environment determined by these rules. Following North’s (1990) framework, there has been a surge in the studies on entrepreneurial activities and institutional factors. Institutional constraints to entrepreneurial activity have been explored in recent years by a number of economists (Baumol, 1990; Gnyawali and Fogel, 1994; McMillan and Woodruff, 1999; De Soto, 2000; Wennekers, 2006; Bowen and Clercq, 2008; Sobel, 2008; Urbano and Alvarez, 2014).

V. Institutions and entrepreneurship in the North-Eastern Region of India

The general reason for the lack of growth of entrepreneurship in the North-Eastern Region of India is often believed as lack of capital, lack of infrastructure, networking and access to market etc (Khanka, 2006; Mishra, 2007; Srivastav and Syngkon, 2009; Panda, 2010, 2016). However these are not the only factors which hamper entrepreneurship growth and economic development in the region. Besides these factors, institutional problems hinder growth of entrepreneurship and economic development in the region. Formal institutions such as protection of property rights, political stability, regulatory quality and access to finance on one hand and informal institutions on the other such as culture, norms, traditions and family support system in NER hold back growth of entrepreneurship.

Therefore unfavourable business environment in the region is often cited as one of the reasons for low levels of private investment and development of the economies of NER. India has improved tremendously over the years in the World Bank’s ease of doing business ranking. The country has moved 14 places to be 63rd among 190 nations in the World Bank’s (2020) ease of doing business ranking 2020 from 77th position a year before. Although the country as a whole is moving forward in reforming and opening up barriers for starting up business, the North-Eastern Region is showing a dismal performance in implementing reforms for creating a
conducive environment for business. This is evident from the ease of doing business ranking released by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry in 2016. North-Eastern states were ranked at the bottom of the list. The performance of the states of the region hasn’t improved four years later since the start of ease of doing business assessment. The states are still at the bottom as aspirers implementing below 80 per cent of the required reform in 2019.

Law and order as an institution is one of the primary factors in the North-Eastern Region which limits the growth of entrepreneurship. According to Bhattacharjee and Nayak (2013) the stagnation of economic growth in the region can be attributed to persistent insurgency in the region as preconditions for investment are security and social stability. Singh (2016) in his study observed that incentives help in starting up enterprises however, frequent closure of enterprises due to law and order problems interferes with the growth of enterprises. Similarly, Khanka (2006) highlights that the unstable and uncertain law and order situation in North-Eastern Region has derailed and shattered the developmental process of the region. While this is adversely affecting the running of industries in the region on the one hand, it is developing a negative attitude among the local people towards the entrepreneurial career on the other.

A line of research studied the relationship between informal institutions and entrepreneurship as social and cultural factors are equally important as formal institutions for the growth and development of entrepreneurship. Scholars have linked the direct impact of culture as an informal institution to entrepreneurial behaviour by studying cross country culture (e.g. Stephan and Uhlner 2010; Uhlner and Thurik 2007; Wennekers et al. 2007). Besides, the indirect impact of culture has been highlighted by Hopp& Ute Stephan (2012). They examined perceptions of community cultural norms and its influence on venture emergence. Their study implies that socio-cultural environments affect venture emergence indirectly by impacting the supply side of entrepreneurship such as start-up motivation and entrepreneurial self efficacy. Similarly, informal institution in the region has been highlighted by many researchers as an obstacle to the growth of entrepreneurship. For example, Mali (2013) emphasised the informal institutional variables such as Socio-institutional factors and organisational environment in the Northeast region as an impediment to entrepreneurship development. He remarks that socio-cultural environment and organisational environment are not entrepreneurial-friendly.

According to Nanda(2010), socio-cultural factors such as family, religion, and culture play a significant role in influencing entrepreneurship development in North-East India. Factors like, absence of an enterprising community, lack of family business tradition, religious and customary laws negatively impact entrepreneurship growth in the Northeast region. Ostapenko, Ulikool, and Estonia (2017) argue that entrepreneurial intentions can be directly and indirectly influenced by informal institutions. The lack of entrepreneurship culture in the region is another factor for the
low growth of entrepreneurship. Informal institution such as culture, norms, and traditions in the region influences entrepreneurial tendencies to an extent. Pou and Mishra, (2013) in this regard have studied the influence of socio-institutional environment (informal institutions) on entrepreneurial development of the Poumai Naga Ethnic Group. They found that to a certain degree institutional environment acts as impediment to entrepreneurial development. This institutional environment are characteristic of features as; (1) complacent and contented economic behaviour, (2) lack of basic business skills, (3) indifferent social attitude towards entrepreneurs and social stigmatization of unsuccessful businessmen, (4) lack of social support to and encouragement for entrepreneurship, (5) very high cost village financing and (6) lack of successful entrepreneurial role model in village.

Family as an informal institution also influences entrepreneurial behaviour (Monticelli et al, 2018; Xiong et al, 2018). Values and culture created by the family influences entrepreneurial behaviour of its members. Mali (2006) highlights that environment in family, educational institutions and social group play a leading role in shaping the outlook of the youth for a career in entrepreneurship. Similarly, Prasain and Singh (2006) in their study identify the importance of family support system for exercising entrepreneurship. Further they emphasise on experience and encouragement of family members as two important factors facilitating entrepreneurship. Sinha (2003) found significant differences between men and women entrepreneurs in getting social support from family and financial agencies in the North- Eastern Region. Furthermore, the Impact of socio-cultural environment barrier was more evident for women entrepreneur.

Resistance to change in North- Eastern Region is very evident. Patikar and Kaurinta (2006) argue that the attitude that has been built upon over a very long period of time has taken an extremely strong grip over people’s minds and there is a fear that change in attitudes may result in an alteration of the power of equilibrium and social structures in this area and therefore there is a resistance to change and hence to any efforts towards development. Various organisations and political groups in the region often resort to ‘Bandh’ a form of protest to get their desired wants and objectives (Mishra, 2007). It has a huge economic impact on the local community and entrepreneur’s daily activity. Burglary, forced closures, arson attacks etc during the protest hampers normal system of market. Therefore this culture of Bandh depicts unfavourable and hostile business environment sending out wrong messages to the potential entrepreneurs and investors in the region.

The market system in the region is not yet fully developed because of several restrictions on free movement and transactions between the rest of India and this region. This situation has been exploited by various vested interests in the society leading to the rise of rent seeking culture in NER. This culture hampers investment in productive activities and cultivation of the spirit of enterprise and risk-taking.
VI. Conclusion

Development in this region is heavily dependent on institutions. The process of development in the region is primarily financed by the state. Furthermore, Entrepreneurship activity in the North-Eastern Region is constrained not only by lack of well-defined property rights, lack of infrastructure, and a developed market system but formal and informal institutions also profoundly act as a barrier to the growth of entrepreneurship in this region. The uncertainty and risk created by Institutions have had a negative impact on the entrepreneurial community. Besides, potential entrepreneurs are discouraged by weak formal institutions and unsupportive informal institutions in the region. The researcher studying the development of the region has been consistently writing about the institutional problems in the region as a major factor for the low level of entrepreneurship activity and development. However, there is a lack of study on the impact of institutions on development and entrepreneurship growth. Given the general acceptance of the importance of entrepreneurship for the development of society, it is therefore imperative that the nexus between institutions and entrepreneurship in the region must be studied. To promote entrepreneurship activity there must be congruence between formal and informal institutions, especially in developing economies like ours, where the formal institutions are developing and at the nascent stage of growth and informal institutions are slow in encouraging entrepreneurial spirit.

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