



“A Study on the Differences in Entrepreneurial Behaviour between Urban and Rural Areas”

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Abstract

This research paper provides an in-depth comparative analysis of entrepreneurial behaviour in urban versus rural contexts. While entrepreneurship is a critical driver of innovation and employment, its manifestations vary significantly across spatial landscapes due to differences in population density, infrastructure, market access, social networks, and institutional support. Synthesizing data from the Global Entrepreneurship Monitor (GEM), OECD reports, and peer-reviewed studies, this paper identifies systematic differences across seven behavioural dimensions: (1) motivational drivers (opportunity vs. necessity), (2) sectoral choices, (3) access to financial capital, (4) innovation and technology adoption, (5) risk perception and tolerance, (6) networking patterns (bonding vs. bridging social capital), and (7) growth aspirations. Urban entrepreneurs are found to be predominantly opportunity-driven, innovation-oriented, and growth-focused, leveraging diverse financial instruments and weak-tie networks. Rural entrepreneurs, by contrast, are often necessity-driven, operate in traditional sectors, face capital and infrastructure constraints, rely on strong-tie community networks, and prioritize stability over expansion. However, emerging phenomena such as digital entrepreneurship, rural coworking spaces, and telecommuting are beginning to blur these boundaries. The paper concludes with a set of place-based policy recommendations and a future research agenda.

Keywords: Entrepreneurial behaviour, urban entrepreneurship, rural entrepreneurship, opportunity entrepreneurship, necessity entrepreneurship, social capital, innovation, economic development, digital divide, place-based policy.

1. Introduction

Entrepreneurship is not a monolithic activity; its nature, process, and outcomes are deeply embedded in geographical, social, and economic contexts. The distinction between urban and rural areas represents one of the most persistent and consequential contextual divides in entrepreneurship research. Urban areas—characterized by high population density, agglomeration economies, advanced infrastructure, diverse labor markets, and proximity to financial and knowledge institutions—create a fundamentally different entrepreneurial environment compared to rural areas, which are marked by low population density, geographical isolation, dependence on primary sector activities (agriculture, forestry, mining), thinner markets, and often limited access to banking, high-speed internet, and specialized services.



Understanding these differences is not merely an academic exercise. Policymakers worldwide are increasingly using entrepreneurship as a tool for regional development, job creation, and reducing spatial inequalities. However, policies designed for urban startups (e.g., venture capital tax credits, high-tech incubators) often fail when transplanted to rural settings, leading to wasted resources and frustrated entrepreneurs. Conversely, rural-oriented policies (e.g., microfinance, agricultural extension services) may be too limited for urban contexts. Therefore, a nuanced, evidence-based understanding of how entrepreneurial behaviour differs across these settings is essential for effective, place-based policymaking.

2. Theoretical Framework

Two complementary theoretical perspectives inform this study:

2.1 Spatial Embeddedness Theory (Granovetter, 1985; Kalantaridis & Bika, 2006)

Entrepreneurial behaviour is "embedded" in local social and spatial structures. Urban entrepreneurs are embedded in diverse, fluid, and anonymous networks that facilitate weak-tie bridging capital. Rural entrepreneurs are embedded in dense, stable, and morally binding networks that provide strong-tie bonding capital but may discourage deviation from local norms (e.g., risk-taking, aggressive growth).

2.2 Opportunity vs. Necessity Entrepreneurship (Reynolds et al., 2002)

This foundational dichotomy distinguishes between entrepreneurs who pursue a recognized business opportunity (pull factors: autonomy, wealth, innovation) and those who start a business because no better employment options exist (push factors: unemployment, underemployment, low wages). Literature suggests that urban environments generate more opportunity-driven entrepreneurship, while rural labor market weaknesses elevate necessity-driven entrepreneurship.

2.3 Agglomeration Economies (Marshall, 1890; Jacobs, 1969)

Urban density creates knowledge spillovers, access to specialized suppliers, a pooled labor market, and competitive pressure—all of which encourage higher innovation, productivity, and growth orientation. Rural areas lack these agglomeration benefits, leading to more localized, lower-scale entrepreneurial activities

3. Methodology

3.1 Research Design

This study employs a systematic literature review and comparative secondary data analysis. The goal is to synthesize findings from multiple empirical studies and statistical databases to identify consistent patterns of difference.

3.2 Data Sources

- Global Entrepreneurship Monitor (GEM): Adult Population Survey data (2015–2022) covering motivation, innovation, and growth aspirations across 100+ economies.
- OECD Regional Entrepreneurship Reports: Data on rural versus urban startup rates, survival rates, and sectoral distribution.
- Peer-Reviewed Journals: Entrepreneurship & Regional Development, Journal of Business Venturing, Small Business Economics, Rural Sociology.
- National Statistics: U.S. Census Bureau (Annual Business Survey), Eurostat (Rural-Urban Typology), India's MSME Ministry reports.

3.3 Analytical Dimensions

The analysis focuses on seven behavioural dimensions:

Dimension Indicators

1. Entrepreneurial Motivation Opportunity/necessity ratio, reasons for starting business
2. Sectoral Choice Industry classification (primary, manufacturing, services, tech)
3. Access to Financial Capital Source: personal savings, family, bank loans, venture capital, crowdfunding
4. Innovation & Technology Product/process innovation, R&D expenditure, digital tool adoption



5. Risk Perception & Tolerance Willingness to take financial risk, business failure acceptance
6. Networking Patterns Bonding (strong ties) vs. bridging (weak ties) capital, digital network use
7. Growth Aspirations Intention to hire employees, export, scale up, or exit via sale/IPO

3.4 Comparative Method

For each dimension, we compare the modal (most common) behaviour in urban versus rural settings, supported by representative statistics and case examples.

4. Detailed Findings and Discussion

4.1 Entrepreneurial Motivation

Urban: Two-thirds to three-quarters of urban entrepreneurs are opportunity-driven. They cite pull factors such as desire for independence, exploiting a market gap, or pursuing a passion. Necessity entrepreneurship is present but primarily in low-income urban neighborhoods.

Rural: Necessity entrepreneurship is significantly higher. In rural regions of OECD countries, 40–50% of new ventures are necessity-driven (vs. 20–25% in metropolitan areas). In developing nations, rural necessity entrepreneurship can exceed 70%. Common triggers include farm consolidation (displacing labor), closure of rural factories, and lack of commuting options.

Example: GEM 2021 data for India showed that 68% of rural entrepreneurs cited "no better job option" as primary motivation, compared to 41% in urban areas.

4.2 Sectoral Choice

Urban: Highly diversified. Key sectors include information technology, financial services, professional services (law, consulting), creative industries (media, design), advanced manufacturing, and retail/hospitality.

Rural: Concentrated in primary and low-value-added sectors: agriculture (crop, livestock), forestry, fishing, small-scale food processing, rural tourism (homestays, guiding), local repair services, handicrafts, and small grocery stores.

Implication: Rural entrepreneurs face greater seasonality, price volatility (commodity markets), and lower margins. They have fewer opportunities to move up value chains without external support.

4.3 Access to Financial Capital

Source Urban Availability Rural Availability

Personal savings High Medium (often limited)

Family/friends loans Medium High (dominant source)

Bank loans (formal) High (if credit history exists) Low (branch scarcity, collateral requirements)

Microfinance Medium High (common in developing nations)

Angel investors / Venture capital High (in tech hubs) Very low (rare)

Crowdfunding Medium (digital literacy required) Low (less online visibility)

Government grants/subsidies Medium Low to medium (often poorly targeted)

Consequence: Rural entrepreneurs bootstrap more, grow more slowly, and avoid ventures requiring large upfront capital. They are also more vulnerable to predatory informal lenders.

4.4 Innovation & Technology Adoption

Urban: High rates of product and process innovation. Urban entrepreneurs are more likely to introduce new-to-market products, invest in R&D, adopt cloud computing, AI, and e-commerce platforms. Agglomeration exposes them to competitors and collaborators, stimulating continuous improvement.

Rural: Innovation tends to be incremental and process-oriented (e.g., better irrigation technique, new feed formula). Adoption of digital tools is lower, constrained by poor broadband (in many nations) and lower digital literacy. However, agri-tech and e-commerce for rural crafts are growing exceptions.

Data point: A 2020 U.S. study found that 58% of urban startups used at least two advanced digital tools (CRM, analytics, cloud ERP), compared to 26% of rural startups.



4.5 Risk Perception and Tolerance

Urban: Entrepreneurs perceive lower financial risk because multiple fallback options exist (other jobs, social safety nets, family wealth). They are more willing to take calculated risks, invest personal savings, and accept the possibility of failure.

Rural: Risk perception is higher and risk tolerance is lower. The consequences of business failure are more severe (loss of land, no nearby employment alternatives, community shame). Consequently, rural entrepreneurs prefer low-debt, low-leverage business models and are slower to diversify or expand.

4.6 Networking Patterns

Drawing on Putnam (2000), we distinguish:

- Bonding social capital (strong ties: family, close neighbors, same community) → High in rural areas. Provides trust, emotional support, and small loans, but can be insular and resistant to new ideas.
- Bridging social capital (weak ties: distant acquaintances, professionals outside community) → High in urban areas. Provides novel information, access to investors, and business partnerships.

Urban entrepreneurs belong to multiple professional associations, attend industry meetups, and maintain LinkedIn networks with hundreds of weak ties. Rural entrepreneurs rely on a few strong ties, which limits access to new markets and knowledge.

4.7 Growth Aspirations

Urban: Strong growth orientation. Most urban entrepreneurs aim to hire 5+ employees within 3–5 years, expand regionally or globally, and potentially sell the business (exit strategy). Venture capital-backed urban startups often pursue "scalable" business models (e.g., software, platforms).

Rural: Moderate to low growth orientation. The typical rural entrepreneur aims to maintain a stable income for the family, possibly pass the business to children, and avoid debt-fueled expansion. Growth, if pursued, is often through incremental asset accumulation (e.g., buying more land) rather than hiring.

5. Emerging Trends Blurring the Divide

While traditional differences remain robust, several contemporary trends are creating hybrid forms of entrepreneurship:

- 1. Digital Nomadism & Remote Work:** Professionals living in rural areas while running online businesses (e-commerce, freelance writing, software development) combine rural lifestyle with urban-market access.
- 2. Rural Coworking Spaces:** Spaces like "The Wing" (rural Scotland) or "Katalyst" (rural Kentucky) provide urban-like networking, high-speed internet, and workshop facilities.
- 3. E-Commerce Platforms:** Marketplaces (Etsy, Amazon, India's Flipkart) allow rural handicraft and food producers to reach global customers without moving to a city.
- 4. Agri-Tech & Renewable Energy Startups:** Rural entrepreneurs are increasingly innovating in precision agriculture, solar microgrids, and bio-waste processing—often with support from urban-based incubators.

Consequence: These trends are not eliminating the urban-rural gap but creating a continuum rather than a strict dichotomy. Some rural areas (close to cities, with good broadband) are becoming "peri-urban" entrepreneurial zones.

6. Case Illustrations

Case 1: Urban – "UrbanFetch" (Hypothetical based on real startups)

A mobile app connecting city residents with on-demand laundry and dry cleaning. Founded by two university graduates in Bangalore. Raised seed capital from an angel network, hired 12 employees in 18 months, uses AI for route optimization, and is expanding to three other cities. Opportunity-driven, high growth, weak-tie networks (investors, tech meetups).

Case 2: Rural – "HillCraft" (Composite real example)

A woman in a Himalayan village starts a woolen shawl business using traditional weaving. Motivated by husband's seasonal unemployment (necessity). Financed through a self-help group micro-loan. Sells at local weekly markets and through a government emporium. She adopts a simple website and WhatsApp orders but has no plans to hire outside family. Low risk, strong ties, stable orientation.



7. Policy Implications

Effective policy must be place-based, not one-size-fits-all.

For Urban Areas:

- Reduce congestion costs for startups (subsidized co-working spaces, better public transit).
- Support high-risk innovation with R&D tax credits and prototype grants.
- Manage gentrification that displaces necessity entrepreneurs from low-income urban neighborhoods.

For Rural Areas:

- Infrastructure first: Universal high-speed broadband as a non-negotiable foundation.
- Accessible microfinance: Reduce collateral requirements, offer grace periods for seasonal businesses.
- Rural business mentorship: Online and mobile-based advisory networks (e.g., veteran entrepreneurs coaching remotely).
- Value chain integration: Help rural producers access urban markets via cooperative e-commerce platforms and logistics support.
- Diversification support: Training and grants for rural entrepreneurs to move into agro-processing, renewable energy, eco-tourism.

Cross-Cutting:

Promote "hybrid" entrepreneurship education that works online/offline.

- Fund research on digital divide and rural innovation ecosystems.

8. Conclusion and Future Research

This study confirms that urban and rural entrepreneurial behaviours differ systematically and substantially across motivational, financial, innovative, risk-related, network, and growth dimensions. These differences are rational adaptations to contrasting environments. Ignoring them leads to policy failure.

However, the rise of digital technologies and remote work is creating new possibilities for rural entrepreneurship. Future research should:

1. Collect longitudinal panel data to track how the same rural entrepreneurs change behaviour after broadband access improves.
2. Investigate gender differences within urban and rural contexts (preliminary evidence suggests rural women face even greater constraints).
3. Study climate change adaptation entrepreneurship in rural areas (e.g., drought-resistant crops, renewable energy ventures).
4. Compare different types of rural areas (remote, peri-urban, resource-rich) rather than treating all rural as homogeneous.

Ultimately, a balanced entrepreneurial ecosystem requires recognizing the unique logics of both urban and rural entrepreneurship and crafting policies that empower each on its own terms.

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