

## CHAPTER 8

### SMALL BUSINESS

A business which operates on a small scale and required less capital, less labour and less machines is called small business. The goods are produced on a small scale. This business is operated and managed by the owner of the business. In India, the village and small industries sector consists of both traditional Handlooms, Handicrafts, khadi and Village Industries. Modern small Industries - Small scale industries and Powerlooms.

According to MSMED Act, 2006, a small scale enterprise defined as one where the investment in Plant and Machinery is more than 25 lacs but does not exceed Rs. 5 crore.

Several parameters can be used to measure the size of business. These include the number of persons employed in business, Capital invested in business, Volume of output of business and power consumed for business activities. The definition used by the Government of India to describe small Industries is based on the investment in plant and machinery. It can be divided as follows :-

|    | Type of Industries              | Investment Limit Rs. | Features   |
|----|---------------------------------|----------------------|--|
| 1. | Small Scale Industries          | One Crore            | For specific production it is 5 Crore (71 Product)                             |
| 2. | Ancillary small Industrial Unit | One Crore            | 50% of output supplied to the permanent Unit.                                  |
| 3. | Export Oriented Units (EOUs)    | One Crore            | It export more than 50% of its production. It can sell 25% in domestic market. |
| 4. | tiny Industrial Unit            | 25 Lakhs             | Investment Limit in plant and machinery is not more than 25 Lakhs.             |
| 5. | Women Enterprises               | Any of the above     | Owned and managed by woman and have capital not less than 51%.                 |
| 5. | Micro Business Enterprises      | One Lakh             | Those whose Investment in plant and Machinery does not exceed Rs. 1 Lakh       |

|    |  |  |   |
|----|--|--|---|
| 7. | Village Industries                                   | Investment<br>Worker per<br>head Rs.<br>50,000/- | Location in Rural Areas<br>Produces any goods<br>without the use of power         |
| 8. | Cottage Industries                                   | Not defined by                                   | Normally use family labour<br>Use Simple machine, use<br>small capital.           |
| 9. | Micro Business Enterprises<br>(Manufacturing Sector) | 25 Lakhs   | Enterprises engaged in the<br>manufacture of goods<br>pertaining to any industry. |

|     |   |
|-----|---|
| Q.1 | What is the limit of capital in plant and machinery for small scale industry with main objective of export promotion and moderation? (5 crore)                            |
| Q.2 | State the distinguishing features of Ancillary small industrial unit. [50% of its production must be supplied to parent company]  |
| Q.3 | On what basis MSMED Act, 2006 measure the size of the business? [Investment in plant and Machinery].  |
| Q.4 | Harish has invested 15 Lakh in plant and Mach to manufacture plastic toys. Ac to MSMED Act, in which category does his enterprise falls.[Micro manufacturing Enterprises] |

### ROLE OF SMALL SCALE INDUSTRIES IN SOCIO-ECONOMIC DEVELOPMENT OF INDIA :-

- 1. Employment :-** Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country. These enterprises are labour intensive and labour is available in abundant amount in rural areas of India.
- 2. Variety of product :-** Small scale Industries produce an enormous Variety of goods e.g. ready-made garments, stationery, soaps, Leather's goods Plastic and rubber goods.
- 3. Export :-** The share of product from SSI is 45% of total export from India So it earn valuable foreign exchange and solve the problem of balance t payment
- 4. Balance regional development :-** S.S.I. can be set any where in the country. They use local resources, Less capital and simple technology.
- 5. Complementary to large scale Industries :-** S.S.I supply



various types of components spare parts. tools etc which are required by large scale enterprises.

6. **Low cost of production** :- S.S.I. also enjoy the advantage of low cost of production because they use local resources in their product.
7. **Quick and timely decision** :- Due to the small size of the organization quick and timely decisions can be taken without consulting many people.
8. **Development of entrepreneurship** :- S.S.I. provide opportunity of young men and women to start their own business.

#### **ROLE OF SMALL BUSINESS IN RURAL INDIA**

1. **Provides Employment in Rural Areas** :- Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available.
2. **Improve Economic Condition** :- Small business provide multiple source of income to the rural households. S.S.I. improve economic conditions and standard of living of people living in those areas.
3. **Prevent migration** :- Development of rural and village industries can also prevent migration of the rural population to urban areas in search of employment.
4. **Utilization of Local Resources** :- S.S.I. use local resources e.g. coir, wood and other products, which otherwise remain idle or unutilized or used in very less quantity.
5. **Equitable distribution of national income** :- Small Scale Industries and cottage industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country and the income of the country is not just concentrated with some city industrialist.
6. **Balanced Regional development** :- These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.
7. **Opportunity for Artisan** :- S.S.I. provide opportunity to people

who are having expertise in different fields but because of lack of opportunities their skills do not come into limelight.


**Problem of Small Scale Industries:**

1. **Finance** :- Non-availability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Banks hesitate to grant financial help to these units.
2. **Raw Material & Power** :- Small scale units are unable to buy raw materials in bulk due to lack of funds and storage facilities. Shortage of power is another factor which leads to underutilization of plant capacity.
3. **Marketing** :- Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. They depend on intermediaries who exploit them.
4. **Technology** :- Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipments necessary for modernizing product. As a result, their cost of production increases.
5. **Competition** :- Small scale firms face competitions not only from large industries but also from multinational companies due to liberalization Privatization and Globalization.
6. **Other problems** :-
  - Lack of Managerial Efficiency due to non-availability to professionals in rural area.
  - Lack of Demand of Produced Goods.
  - Labour Problems due to lack to skilled or expert labour.
  - Burden of Local Taxes.
  - Poor Product Quality.

**GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND  
SMALL BUSINESS UNITS**

**(A). INSTITUTIONAL SUPPORT :-**

1. **National small Industries Corporation (NSIC)**



This was set up in 1955 to promote, aid and foster the growth of small scale units in India. Main constraint faced by entrepreneurs is shortage of funds to purchase machinery and equipment. Non availability of finance, deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

A new scheme of "Performance and credit rating" of small business is implemented through NSIC with twin objective.

- a) Sensitizing the small industrial about the need for credit rating.
- b) Encouraging the small business to maintain good financial record.

**Main functions of NSIC :**

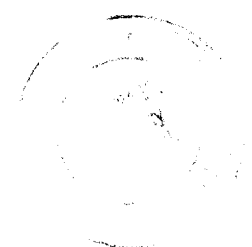
1. It supplies imported machines and raw materials to small industries on easy hire-purchase schemes.
2. It export the products of small units.
3. It provides technology to small scale industries.
4. Helps in up gradation to technology.
5. Provides in up gradation of technology
6. Provides various equipment on lease basis.
7. Undertakes construction of industrial estates.

**II. District Industries Center (DIC)**

The concept of DIC came during 1977, when govt. of India announced the new Industrial policy on 23rd Dec, 1977. The main objective of DICs is to make available all necessary services at one place. The finance for setting up DICs in a state are contributed equally by particular state Govt. and Central Govt.

**Functions of District Industries Center**

1. Act as the focal point of industrialization of the district
2. Identifies projects for setting up of SSI units.
3. Issues permanent registration certificate to SSI units.
4. Provides marketing support to SSI units
5. Act as a link between the entrepreneurs and the lead bank of district.

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6. Helps businessman in obtaining licence from Electricity board, water supply board etc.
  7. Provided loans, work sheds and raw material to SSI units.
  8. Implements government sponsored schemes for educated unemployed.
  9. Provided assistance to entrepreneurs to procure machinery and raw material.

- Q.1 What is the name of organization which ensures smooth credit flow to small business through syndication with banks? (NSIC)
- Q.2 Name the scheme launched by NSIC to spread awareness about credit rating? (Performance and credit rating)

**(b) Other Govt. Incentives to Hilly Backward And Rural Areas**

1. **Power** :- Some states supply power at a concessional rate of 50%.
2. **Tax holidays** :- Exemption from payment of tax for 5 or 10 years is given to industries established in backward areas.
3. **Land and Water** :- Availability of land at concessional rate. Water is supplied on no profit no loss basis.
4. **Octroi** :- Most of the states have abolished octroi.
5. **Protective Measures** :- The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines
6. **Marketing Assistance** :- Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.
7. **Finance** :- Subsidy of 10-15% for building capital asset. Loans are offered at concessional rates with easy instalments of loan repayment.
8. **Sales Tax** :- In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years. No value added Tax (VAT) and other local taxes for a specified period.



### 1 MARKS QUESTIONS

1. Which type of Industry uses family labour and local available talent while running the business ?
2. A micro small scale industry has investment of Rs. 24 lakhs and engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. what type of small Business will it become and what is the maximum investment limit in such cases ?
3. Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51% ?
4. Name any 2 areas where SSLs feel threatened from global enterprises.
5. Name any 2 merits of SSLs in the export trade of India.
6. What is the difference between ancillary small industrial unit and tiny industrial unit ?

### APPLICATION - ORIENTED AND VALUES BASED QUESTIONS.

- Q.1 Preet food Industries set up food and beverages processing plant in the rural area of Haryana and opted for labour intensive technique due to easy availability of labour and to provide employment to local people. Board of director decided to invest 50 lakhs to acquire plant & machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.
- (a) Name the Act of Industries which is applicable to the above industry.
  - (b) which category of part (a) will the above industry come ?
  - (c) State the investment limit in this category.
  - (d) what value have been followed by the above company.
- [Hints:-MSMED Act, 2006. Small Scale Industry, Rs. 5 crores. Employment Generation, Balanced Regional Development, concern for social Responsibility]
- Q.2 Board of Directors of "Bio Pure water Ltd." decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earn marked 15% of its profit for Educational and Health needs of its employees and their family members.



- (a) The above company comes under which category as per MSME Act 2006.
- (b) Write any one commercial reason for setting up of unit in the hilly region.
- (c) According to you, what are the options available to the company for meeting its long term and short term needs
- (d) What are the values promoted by' the company

[Hints :- Small scale Industry, Cheap price of Land and Labour, Equity share Capital and Loans from Bank. Balanced Regional Development. Motivation to employees Employment Generation and upliftment of rural areas.

Q.3 Sushant Singh done his B.Tech in electrical engineering. He has no business experience but wants to start a small scale manufacturing unit. He has chosen to manufacture light engineering goods which will be marketed to manufacturers and in replacement markets.

- a) Which Govt. agency should he approach for receiving suitable guidance for starting his unit ?
- b) What type o facilities will eh be able to get from concerned agency.

[Hint : (a) DIC (b) Role of DIC]

Q.4 The Govt. of India has lunched special schemes for developing small scale industries in rural, backward and hilly areas.

Explain any 3 such schemes and mention any 2 vales involved in launching there schemes.

[Hint : Any 3 Schemes from other incentives

Values : (a) Concern for people living in un-development areas.

(b) Creation of self-sufficiency.

Q.5 Almost in every district of the country a District Industries center (DIC) has been set up. Mention any four objectives of this centre and identify the value involved in it.

[Values : Taking care of upcoming entrepreneurs Balanced regional growth]

Q.6 "Small Scale Industries contribute to the economic development of the country by producing 40% of the gross industrial value added, yet they face financial crises all the time." Why do small industries face financial problems all the time?