Chapter 9

Small Business and Entrepreneurship

Short Answer

Q. 1 What are the different parameters used to measure the size of the business?

Answer:

There are many parameters which are used to measure the size of the business. A few of them are mentioned below:

a. The number of people employed in the business.

b. Capital invested in the business.

c. The volume of output of the business.

d. Power consumed by the business.

Q. 2 What is the definition used by the Government of India for Small Scale Industries?

Answer:

The Government of India defines the small scale industries on the basis of their investment in plant and machinery. Small scale industries are the industries with the investment in the fixed asset of plant and machinery not exceeding one crore rupees.

Q. 3 How would you differentiate between an ancillary unit and a tiny unit?

Answer:

BASIS OF DIFFERENCE	ANCILLARY UNIT	TINY UNIT

1. Definition	An ancillary unit is a unit that has a supply of a minimum of 50% of their production to the parent industry	A tiny unit is a unit whose investment in plant and machinery is not more than 25 lakh rupees.
2. Obligation	The supply units have to supply at least 50% of the parent industries.	No such obligation
3. Investment	The maximum investment is rupees one crore.	The maximum investment is rupees 25 lakhs.
4. Example	Industries engaged in the production of machine part or tools.	Small shop boutique photocopy center, and STD booth.

Q. 4 State the features of cottage industries.

Answer:

A cottage industry is an industry who produces artistic goods using the manual technique. For example, handloom and weaving. Its features are mentioned below:

a. Cottage industries labour comprises of the family and the locally available talent.

b. The equipment used is very simple.

c. The capital investment is small.

d. The resources are procured through private sources.

e. Indigenous technology is used.

f. They produce simple products usually in their own premises.

Long Answer

Q. 1 How do small scale industries contribute to the socio-economic development of India?

Answer:

The contribution of the small industries to the social-economic development of India is explained below:

a. Small scale industries account for 95% of the total industries in India.

b. 40% of the total industrial output if attributed to the industries.

c. 45% of the total exports of India belongs to the sector. Handicraft, jewelry, etc. are some of the items that are exported.

d. They contribute to the balanced development of the country. They produce simple products using indigenous Technology with locally available resources.

e. They have to generate many primitive opportunities in rural areas. They are the second-largest employer of human resources. They generate more number of employment opportunities for the unit of capital invested as compared to the large industries.

f. They produce a wide variety of products such as readymade garments, stationery products, leather, soaps, processed food, steel Furniture, safety matches, paints, agricultural tools, handicrafts, etc.

g. These Industries use locally available resources which are less expensive and thus they have the advantage of the low cost of production. The cost of its establishment is also low.

h. It helps to reduce the Migration of workers from rural areas to the urban areas in search of employment.

i. It gives an opportunity to the talented and skilled workers to show their talent globally.

j. Due to the small size of the small scale industries, decisions can be taken quickly and timely.

k. These Industries have the ability of adaptability and personal touch which is important to maintain good customer relations.

l. The products produced by these Industries can be customized according to the needs of the individual customers because of the simple and flexible production designs.

Q. 2 Describe the role of small business in rural India.

Answer:

The role of small business in rural India is explained below:

a. About 95% of the industrial unit existing in India consists of small sector Industries. The total of 40% of the industrial output accounts from these Industries. 45% of the total export from India is also contributed by these industries.

b. Deep Industries play an extremely important role to provide employment opportunities in the rural areas especially the artisans and the weaker sections of the society.

c. The small scale industries have a very low cost of production this is because the cost of running the establishment and the overhead expenses are extremely low.

d. It helps to reduce the Migration of the people residing in the rural areas to the urban areas in search of employment.

e. These Industries have certain qualities which are not usually observed in the large scale industries. Such as adaptability and maintaining good personal relations.

f. These industries are small in size. This helps the decision to be taken quickly and timely.

g. The rural areas are mainly considered to be agrarian. With the development of the small scale industries the rural households now have a diverse source of income as well as employment.

h. They help to solve problems such as the income inequalities, development of backward areas and developing a linkage between the rural areas and urban market.

i. It generates more number of employment opportunities per unit of capital invested.

Q. 3Discuss the problems faced by small scale industries.

Answer:

The problems faced by small scale industries are mentioned below:

a. The main problem faced by the small scale industries is the lack of Finance. Finance is required to establish business and carry out their day to day operations. They do not have the creditworthiness and the Collateral to raise the capital from the Financial Institutions. Banks are also hesitant to lend them loans. Eventually, they have to rely on the money lenders who chart exorbitant rates of interest and exploit them. They also fall short of the working capital because of the delayed payment.

b. A small business is established by a manager who does not have the required managerial skills to run the business. Some of the managers have good technical knowledge but are not successful in marketing their product. Some of them may have good advertising techniques but may not have adequate technical knowledge. Due to the shortage of funds, they cannot employ a professional manager.

c. They do not have easy access to raw material. They have to make a compromise either on the quality of the raw material for high price for its procurement. They usually purchase small quantities of raw material because of the lack of storage capacity and low bargaining power.

d. Due to the shortage of funds these industries are not able to employ workers at a high salary. This affects the willingness to work of the employee. This leads to lower productivity per employee and higher employee turnover. Division of labour can also not be practiced in this Industries.

e. These industries are not able to market their products in the right direction. They do not have the required infrastructure which is required for efficient marketing. They have to depend excessively on the middlemen which exploit by taking a very low price for the good.

f. Due to the various internal and external problems faced by these industries, most of these units are considered to be sick units. Internal problems include a lack of skilled labour and adequate marketing skills. External problems include delay payments and inadequate loans.

g. The technology used by these Industries is obsolete. They are unable to afford more advanced technology.

h. They always operate below their full capacity due to the law of demand. This leads to an increase in their operating cost which eventually leads to its sickness and closure.

i. They are not able to withstand the competition in the global market with the larger MNCs.

Q. 4 What measures has the government taken to solve the problem of finance and marketing in the small scale sector?

Answer:

The government has taken to solve the problem of finance and marketing in the small scale sector are:

a. National bank for Agriculture and Rural Development NABARAD- It was established in 1982. Its main objective was to promote integrated rural development. It is an Apex body that governs the operations of the rural and Gramin banks. It supports small industries, cottage and village

industries, and rural artist. It provides easy and cheap credit facilities to these Industries. It provides regular training and development program for rural entrepreneurs.

b. World Association for Small and Medium Enterprise WASME -It is an international non-government organization. It was set up to address the problems faced by small industries. It has also set up an International Committee for Rural Industrialization to help these Industries grow and develop.

c. Small Industries Development Bank of India-It was set up as an Apex Bank to provide financial assistance through direct and indirect ways under different schemes to the small industries.

d. The National Commission for Enterprises in the Unorganized Sector-NCEUS - it was established in 2004. First to improve efficiency and enhance the global competitiveness of these industries. Undeveloped linkages with other institutions with regard to raw material, marketing, technology, and Finance.

e. Rural small business development center- It is sponsored by NABARD. It focuses on economically disadvantaged groups. It provides technical support to the current and prospective entrepreneurs in rural areas.

f. National Small Industries Corporation- it was set up in 1955 to promote the growth of small business units in India. It provides raw material at a lower rate, provides machinery on easy hire purchase terms, provides Technology upgradation, software parks development and export the products produced by these units.

g. Rural and women entrepreneurship development - It provides a conducive and healthy environment for the growth of the women entrepreneurs. It provides them with regular training and development programs.

h. District industry Center-It was established in 1978 at a district level for the promotion of small scale industries.

Q. 5 What are the incentives provided by the Government for industries in backward and hilly areas?

Answer:

The incentives provided by the Government for industries in backward and hilly areas are:

- The government provides land for the setting up of industries. Some of the states might offer an exemption of rent in the initial years or payment in the form of installment. Some of the states even of lands at a concessional rate. The terms and conditions vary from state to state.
- Power is supplied at a concessional rate of 50% then the original price. Some of the states even give exemption of the payment of the power received.
- Industries are exempted from sales tax in all the union territories. Some of the states have exempted them for 5 years.
- Water is supplied at a no-profit no-loss basis ar at a 50% concession or with a complete exemption for the initial years.
- The industries established in the backward areas for hilly areas receive the preferential treatment in the allotment of scarce raw materials such as iron and cement.
- Octroi has been abolished in almost all the states. Loans are offered at a lower rate.
- Finance subsidy is given for building capital Assets of 10% to 15%.
- one of these States encourage the setting up of industries in the backward areas. These Industries received a tax holiday of 5 to 10 years.

Projects/Assignments

Q. 1 Prepare a questionnaire to find out the actual problems faced by an owner of a small scale unit. Prepare a project report on it.

Answer:

Questionnaire

Q1. What is your name?

Q2. What is your age?

Q3. What is your area of residence and place of work?

Q4. What is your area of business?

Q5. Since how long are you working in this field?

Q5. How did you arrange the start-up capital?

Q6. Do you have any banking facility in your area, which can help you to meet your financial needs?

Q7. Have you received any financial assistance from the government either directly or indirectly.?

Q8. How did you arrange the raw material required for your business?

Q9. Do you access to the raw material at a concessional rate?

Q10. How do you promote your product? Do you receive any assistance in this regard from the government?

Q11. Is your work labour intensive? Do you think your productivity would be increased if you use any form of technology?

Q12. Do you have access to any such technology?

Q13. Is there a proper network of roads to go to the big cities to market your product?

Q14. Do you have to pay taxes on your products?

Q15. If yes, what is the approximate amount to be paid as taxes?

Q. 2 Survey about five small scale units in your vicinity and find out if they have received any assistance by the institution's set up by the Government.

Answer:

The five small scale units in my vicinity are- Fritter making company, Homemade ghee, Incense sticks manufacturing, costume manufacturing, and candle making.

They have received the following assistance by the institution's set up by the government:

- These small scale industries receive more assistance as they ar located in the backward areas of the country.
- A few of them are run solely by women. they receive proper training of business and entrepreneurship from the government,
- A few of them have received direct and indirect financial assistance from the government.
- They receive the raw materials at a concessional rate.
- The government has set up better infrastructure facilities for its promotion.