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 produces 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, coir, khadi and Village Industries. Modern small Industries - Small scale industries and Powerlooms.

A small scale enterprise according to MSMED Act, 2006 is 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 :-

<table>
<thead>
<tr>
<th>Type of Industries</th>
<th>Investment Limit Rs.</th>
<th>Features</th>
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<tbody>
<tr>
<td>I. Small scale Industries</td>
<td>One Crore</td>
<td>For specific production it is 5 Crore (71 product)</td>
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<td>2. Ancillary small Industrial Unit</td>
<td>One crore parent unit</td>
<td>50% of output supplied to the parent unit</td>
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<td>3. Export Oriented Units (EOU's)</td>
<td>One crore</td>
<td>It export more than 50% of its production. It can sell 25% in domestic market.</td>
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<td>4. Tiny Industrial Unit</td>
<td>25 Lakhs</td>
<td>Investment Limit in plant and Machinery is not more than 25 lakh.</td>
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<td>No.</td>
<td>Category</td>
<td>Details</td>
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<td>5.</td>
<td>Women Enterprises</td>
<td>Any of the above owned and managed by woman and have capital not less than 51%</td>
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<td>6.</td>
<td>Micro Business Enterprises</td>
<td>One lakh Those whose Investment in plant and Machinery does not exceed Rs. 1 lakh</td>
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<td>7.</td>
<td>Village Industries</td>
<td>Investment Worker per head Location in Rural Areas Produces any goods without the use of power Rs. 50,000/-</td>
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<td>8.</td>
<td>Cottage Industries</td>
<td>Not defined Normally use family labour. by Capital Investment Use Simple machine, use small capital.</td>
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**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.
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 of payment.
4. Balance regional development: S.S.I can be set up anywhere 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. Which are required by large scale
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 decisions: 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 labor-oriented enterprises. In Indian rural areas, ample labor is available.

2. Improve Economic Condition: S.S.I. provide multiple sources of income to the rural households. This improves economic conditions and the 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. Utilisation of Local Resources: S.S.I. use local resources e.g., coir, wood, and other products.

5. Equitable distribution of national Income: S.S.I. and cottage industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country.

6. Balanced Regional Development: These enterprises are often dependent on local sources of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.
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 underutilisation 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. As a result, their product do not have a brand name or loyalty.

4. **Technology**: Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipments necessary for modernising product.

5. **Competition**: Main problems faced by small scale firms because of globalisation, liberalisation and privatisation.

6. **Other problems**:
   - Lack of Managerial Efficiency.
   - Lack of Demand of Produced Goods.
   - Labour Problems.
   - Burden of Local Taxes.
   - Poor Product Quality.

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

(A). INSTITUTIONAL SUPPORT:

I. **National small Industries Corporation (NSC)**

This was set up in 1955 to promote, aid and foster the growth of small scale units in India. main constraint faced by entrepreneurs in 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.

**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 upgradation to technology.
5. Provides in upgradation of technology
6. Provides various equipment on lease basis.
7. Undertakes construction of industrial eastates.

**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.
6. Helps businessman in obtaining licence from Electricity board, water supply board etc.
Govt. Incentives to hilly backward and Rural Areas

1. **Power**: Some states supply power at a confessional rate of 50%.

2. **Tax holidays**: Exemption from payment of tax for 5 years.

3. **Land and Water**: Availability of land at confessional 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 confessional rates.

8. **Sales Tax**: In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years.

**QUESTIONS :-**

1. What do you mean by Small Business?

2. Give full form of NSIC

3. What is a Women Enterprise?

4. How much Small Industries contribute to total export from India?

5. Explain any three types of Small Scale Industries in India.

6. Explain four important problems of Small Business in India.

7. What are the incentives given by Govt. to Industries set up in hilly, backward & rural areas.

8. Explain the role of small scale Industries in the development of Rural Area.

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

10. Write short note on :-
    I. NSIC
    II. DIC