

Class XI Business Studies

Chapter 9 Small Business

Revision Notes

MEANING AND NATURE OF SMALL BUSINESS

- In India, the 'village and small industries sector' consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and powerlooms. The last two come under the modern small industries, while the others come under traditional industries
- The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues relating to definition, credit, marketing and technology upgradation. Medium scale enterprises and service related enterprises also come under the purview of this Act. The MSMED Act, 2006 came into force w.e.f., October, 2006. Accordingly, enterprises are classified into two major categories viz., manufacturing and services
- **Manufacturing**
In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, there are three types of enterprises:
 - Micro enterprise: investment in plant and machinery does not exceed twenty-five lakh rupees
 - Small enterprise: investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees
 - Medium enterprise: investment in plant and machinery is more than five crore rupees but does not exceed ten crores rupees.
- **Services**
In the case of enterprises engaged in providing or rendering of services there are three types of enterprises:
 - Micro enterprise: investment in equipment does not exceed ten lakh rupees.
 - Small enterprise: investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.
 - Medium enterprise: investment in equipment is more than two crore rupees but does not exceed five crore rupees.
- **Village Industries**
Industry located in a rural area which produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or artisan or worker is specified by the central government, from time to time
- **Cottage Industries**
Cottage industries are characterised by certain features like the following:
 - these are organised by individuals, with private resources;
 - normally use family labour and locally available talent;
 - the equipment used is simple;

- capital investment is small;
- produce simple products, normally in their own premises;
- production of goods using indigenous technology

ADMINISTRATIVE SETUP FOR THE SMALL SCALE, AGRO AND RURAL INDUSTRIES

- Promotional and developmental projects and schemes are executed through the State Directorate of Industries, who has District Industries Centres (DICs) under it to implement central/state level schemes

Administrative setup	Work as	Purpose
Ministry of Micro, Small and Medium Enterprises	Nodal ministry	Formulation of policy and coordination of central assistance for the promotion and development of small scale industries in India
The Small Industries Development Organisation	Office of the Development Commissioner	Implementing and monitoring of various policies and programmes formulate
The National Small Industries Corporation	Public sector enterprise of the Ministry	Providing marketing support to the medium and small enterprises
Ministry of Agro and Rural Industries	Nodal agency	Coordination and development of Village and Khadi industries, tiny and micro enterprises in both urban and rural areas

ROLE OF SMALL BUSINESS IN INDIA

- Small industries in India account for 95 per cent of the industrial units in the country. They contribute almost 40 per cent of the gross industrial value added and 45 per cent of the total exports (direct and indirect exports) from India.
- Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries
- Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, handlooms, handicrafts etc
- The contribution of small industries to the balanced regional development of our country
- Small industries provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business
- Small industries also enjoy the advantage of low cost of production. Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side

- Small industries are best suited for customised production. i.e. designing the product as per the tastes/ preferences/needs of individual customers
- Small industries have inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees.

ROLE OF SMALL BUSINESS IN RURAL INDIA

- Rural households can have highly varied and multiple sources of income and that, rural households can and do participate in a wide range of non-agricultural activities such as wage employment and self-employment in commerce, manufacturing and services, along with the traditional rural activities of farming and agricultural labour
- The emphasis on village and small-scale industries has always been an integral part of India's industrial strategy. Development of rural and village industries can also prevent migration of rural population to urban areas in search of employment
- Village and small industries are significant as producers of consumer goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment
- Promotion of small scale industries and rural industrialization has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas

PROBLEMS OF SMALL BUSINESS

❖ Finance:

- Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets.
- They are exploited by the money lenders
- These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks

❖ Raw Material:

- If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials
- They cannot afford to take the risk of buying in bulk as they have no facilities to store the materials

❖ Managerial Skills

- Promoted and operated by a single person, who may not possess all the managerial skills required to run the business
- They may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers

❖ Labour

- They cannot afford to pay higher salaries to the employees, which affects employee willingness to work hard and produce more

- Unskilled workers join for low remuneration but training them is a time consuming process
- ❖ Marketing
 - These organisations have to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments
 - They lack the necessary infrastructure for direct marketing
- ❖ Quality
 - They concentrate on cutting the cost and keeping the prices low.
 - They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology
- ❖ Capacity Utilisation
 - They have to operate below full capacity due to which their operating costs tend to increase.
 - Gradually this leads to sickness and closure of the business.
- ❖ Technology
 - Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.
- ❖ Sickness
 - The causes of sickness are both internal and external.
 - Internal problems include lack of skilled and trained labour and managerial and marketing skills.
 - Some of the external problems include delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.
- ❖ Global Competition
 - Competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes
 - It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities
 - There is limited access to markets of developed countries due to the stringent requirements of quality certification like ISO 9000

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

❖ **Institutional Support**

- National Bank for Agriculture and Rural Development (NABARD)
 - ◆ It has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.

- ◆ Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches.
 - ◆ It offers counselling and consultancy services and organizes training and development programmes for rural entrepreneurs
- The Rural Small Business Development Centre (RSBDC)
 - ◆ It aims at providing management and technical support to current and prospective micro and small entrepreneurs in rural areas
 - ◆ RSBDC has organized several programmes on rural entrepreneurship, skill upgradation workshops, mobile clinics and trainers training programmes, awareness and counselling camps
- National Small Industries Corporation (NSIC)
 - ◆ Supply indigenous and imported machines on easy hire-purchase terms.
 - ◆ Procure, supply and distribute indigenous and imported raw materials.
 - ◆ Export the products of small business units and develop exportworthiness.
 - ◆ Mentoring and advisory services
- Small Industries Development Bank of India (SIDBI)
 - ◆ Set up as an apex bank to provide direct/indirect financial assistance under different schemes, to meet credit needs of small business organisations.
 - ◆ To coordinate the functions of other institutions in similar activities
- The National Commission for Enterprises in the Unorganised Sector (NCEUS)
 - ◆ To recommend measures considered necessary for improving the productivity of small enterprises in the informal sector.
 - ◆ To generate more employment opportunities on a sustainable basis, particularly in the rural areas.
 - ◆ To enhance the competitiveness of the sector in the emerging global environment.
 - ◆ To develop linkages of the sector with other institutions in the areas of credit, raw materials, infrastructure, technology upgradation, marketing and formulation of suitable arrangements for skill development.
- Rural and Women Entrepreneurship Development (RWED)
 - ◆ Creating a business environment that encourages initiatives of rural and women entrepreneurs.
 - ◆ Enhancing the human and institutional capacities required to foster entrepreneurial dynamism and enhance productivity.
 - ◆ Providing training manuals for women entrepreneurs and training them.
 - ◆ Rendering any other advisory services.
- World Association for Small and Medium Enterprises (WASME)
 - ◆ Its aim is to develop an action plan model for sustained growth of rural enterprises

- ◆ There are several schemes to promote the non-farm sector, mostly initiated by the Government of India
- ◆ There are various schemes for entrepreneurship and for specific group of industries like handlooms and handicrafts
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
 - ◆ To develop clusters of traditional industries in various parts of the country
 - ◆ To build innovative and traditional skills, improve technologies and encourage public-private partnerships, develop market intelligence etc., to make them competitive, profitable and sustainable
 - ◆ To create sustained employment opportunities in traditional industries.
- The District Industries Centers (DICs)
 - ◆ Provides all the services and support facilities to the entrepreneurs for setting up small and village industries.
 - ◆ Identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services are the main activities undertaken by these centers.

❖ Incentives

- Land:

Every state offers developed plots for setting up of industries. The terms and conditions may vary. Some states don't charge rent in the initial years, while some allow payment in instalments.
- Power:

Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.
- Water:

Water is supplied on a no-profit, no-loss basis or with 50 per cent concession or exemption from water charges for a period of 5 years.
- Sales Tax:

In all union territories, industries are exempted from sales tax, while some states extend exemption for 5 years period.
- Octroi:

Most states have abolished octroi.
- Raw materials:

Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron and steel etc.
- Finance:

Subsidy of 10-15 per cent is given for building capital assets. Loans are also offered at concessional rates.
- Industrial estates:

Some states encourage setting up of industrial estates in backward areas.
- Tax holiday:

Exemption from paying taxes for 5 or 10 years is given to industries established in backward, hilly and tribal areas

MARKETING ASSISTANCE SCHEME

Objectives:

- ❖ To enhance marketing capabilities and competitiveness of the MSMEs.
- ❖ To showcase the competencies of MSMEs
- ❖ To update MSMEs about the prevalent market scenario and its impact on their activities.
- ❖ To facilitate the formation of consortia of MSMEs for marketing of their products and services.
- ❖ To provide platform to MSMEs for interaction with large institutional buyers.
- ❖ To disseminate/propagate various programmes of the Government.
- ❖ To enrich the marketing skills of the micro, small and medium entrepreneurs

MARKETING SUPPORT TO MSME

- ❖ Organising International Technology Exhibitions in Foreign Countries by NSIC and Participation in International Exhibitions/Trade Fairs
 - facilitate them in exploring new business opportunities in emerging and developing markets
 - helps in promoting trade, establishing joint ventures, technology transfers, marketing arrangements and image building of Indian MSMEs in foreign countries
 - participation of Indian MSMEs in the select international exhibitions and trade fairs.
 - Participation in such events exposes MSMEs to international practices
- ❖ Organising Domestic Exhibitions and Participation in Exhibitions/Trade Fairs in India
 - help the MSMEs in enhancing their marketing avenues by way of capturing new markets
 - expanding existing markets
- ❖ Support for Co-sponsoring of Exhibitions Organised by other Organisation and industry Associations/Agencies
 - This support would be in the form of co-sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation/agency must fulfill the centre criteria/conditions
- ❖ Buyer-Seller Meets
 - Participation in these programmes enables MSMEs to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of MSMEs for their purchases.
- ❖ Intensive Campaigns and Marketing Promotion Events
 - To disseminate information about the various schemes for the benefit of the micro, small and medium enterprises.

- They are also facilitated to enrich their knowledge regarding latest developments, quality standards etc. and improve the marketing potential of their products and services.

❖ Other Support Activities

- Development of Display Centres, show windows and hoarding etc., for promoting products and services of MSMEs.
- Printing of Literature, Brochures and Product-specific catalogues and CDs etc., and preparation of short films for disseminating information.
- Development of website/portal for facilitating the marketing of MSME products and services
- Development and dissemination of Advertising and Publicity material about various programs/schemes for MSME sectors and events.
- Preparation and Upgradation of MSME Manufacturers/ Suppliers/ Exporters Directory.
- Documentation of the success stories of MSMEs.
- Conducting studies to explore and assess new markets/ businesses and product ranges for both domestic and international markets.
- Hosting international delegations and networking events

THE FUTURE

- With the global economy, it is inevitable for the small businesses to gear up their capabilities to explore, penetrate and develop new markets.
- They have to steadily reorient themselves to face the challenges posed by increased competition, domestically and internationally too
- Government should reorient its assistance to the small business sector by acting as a facilitator and promoter and not as a regulator
- Identifying the core competencies of the small businesses
- Small business sector should view globalisation as an opportunity for its active participation as suppliers of specialised component and parts
- Mantra of success is 'think global, act local.'