



# **ST. LAWRENCE HIGH SCHOOL**

**A Jesuit Christian Minority Institution**  
**STUDY MATERIAL**  
**CLASS –XI**

**SUBJECT –BSTD**

**CHAPTER 7 – Small Business**

**Date - 30.01.21**

## **Meaning and nature of small scale business unit**

Government of India considers investment in plant and machinery as the criteria to describe small industries. Small business is organized by individuals in the private sector. In this business capital investment is small and generally restricted to one crore. Taking capital investment as the basis, small business units in India fall under any of the followings categories:

### **A. Small scale industry**

Industrial units, wherein investment in fixed assets of plant and machinery does not exceed rupees one crore are categorized as small scale industry. The investment ceilings for those small scale industries, which are concerned with export promotion and modernization is rupees 5 crores.

### **B. Tiny enterprises**

A business enterprise whose investment in plant and machinery does not exceed rupees 25 lakhs is known as tiny enterprises.

### **C. Micro business enterprises**

Within tiny and small business sector, micro enterprises are those whose investment in plant and machinery does not exceed rupees one lakh.

### **D. Village industry**

Any industry which produces any goods, renders any services with or without power and in which the fixed capital investment per worker does not exceed to rupees 50000 and located in rural area is called village industries.

### **E. Cottage industries**

Cottage Industry is a specialized form of small scale industry where the production of the commodity takes place in the homes and the labor is supplied by the family members only. The basic

characteristic feature of Cottage Industry is that it is basically unorganized in nature and come under the group of small scale industry type.

According to The Micro, Small and Medium Enterprises Development Act (MSMED) 2006 small enterprises are classified into two major categories . They are:

1. Small scale industries concerned with manufacturing.
2. Small scale industries providing services.

#### Manufacturing

These industries are engaged in manufacturing some articles. They can again classify into three.

**Micro enterprises:** Where the investment in plant and machinery does not exceed twenty five lakhs.

**Small enterprises:**Where the plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees.

**Medium enterprises:** Where the investment in plant and machinery is more than five crore but does not exceed ten crores rupees.

#### Services

These industries are engaged in providing some services.They can also classify into three.

1. **Micro enterprise:**Where the investment in equipment does not exceed ten lakh rupees.
2. **Small enterprise:** Where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.
3. **Medium enterprises:** Where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

#### Role of small business in India

Small industries play an important role in our economy. Indian economy is a developing economy.

Population has been increasing at faster rate. Our agriculture and industries at present are not capable of absorbing all unemployed persons. Unemployment has been increasing like epidemic and the solution lies only in the development of cottage and small scale industries, which have been contributing 40% of our production. Following points reveals the significance or importance of small scale industries in India.

### 1. Provide more employment opportunities

Small industries are labour intensive. They require more workers and lesser machines and equipments. Thus, it will be suitable for Indian economy, where unemployment is widespread.

### 2. Small capital and simple management

These industries can be started with small capital and simple machines. In this way these industries can be owned and operated by persons of ordinary skill also.

### 3. Quick yielding

The formation of these industries is simple and does not take long period for establishment.

### 4. More equality in income distribution

In case of large scale industries the income concentrates in the hands of few industrialists. In case of small scale industries, there is large number of small industrialists and thus income can be distributed among large people. Thus equitable distribution of income is possible in small scale industries.

### 5. Balanced regional development

A major problem seen in India is the tendency of large scale industries getting concentrated in some areas only. This has led to the concentration of the economic power areas and causes regional inequalities. Small business is useful in achieving balanced regional development as they are wide spread.

### 6. Helps in mobilizing capital

Small scale industries are helpful in mobilizing capital. These industries can be started with small capital. It can be sole proprietorship, partnership or a co-operative society. Persons desirous of establishing these industries save their income and also mobilize savings from other people.

## **Problems of small business**

Small scale industries in India face a number of problems today. They are:

### 1. Lack of managerial experience

Small business is generally promoted and operated by a single person, who may not possess all managerial skills required to run the business.

## 2. Inadequate finance

Generally small business begins with a small capital base. These units frequently suffer from lack of adequate working capital. Banks generally do not lend money without adequate collateral security. As a result they heavily depend on local financial resources and are frequently the victims of exploitation by money lenders.

## 3. Irregular supply of raw materials

The quality, quantity and regularity of supply of raw materials are another problem of small scale industries. They depend local sources for raw materials requirements and regular supply can't be ensured. Further, units are forced to go for small quantity purchase and pay high prices. They can't enjoy economies of bulk purchase.

## 4. Problem of marketing

Small units find it difficult to popularize the brand name of their products due to the tough competition from big business houses. They can't undertake costly advertisement campaigns.

## 5. Outdated technology

Use of out dated technology is one of the problem facing small scale industries today. It results in low productivity and uneconomical production.

## **Government assistance to small business**

A number of measures have been taken by Government to protect this sector from large scale business units and to promote its orderly growth. They are:

### 1. Reservation of products

The government has notified that 590 items can be produced exclusively by the small scale units. For eg: Rubber bands, paper files etc.

### 2. Infrastructural and institutional support

Infrastructural and institutional support is provided through industrial estates, District Industries Centre, Small Industries Service Institute etc. which provides technical assistance, testing facilities etc.

### 3. Provide Machinery on Higher Purchase Scheme

The National Small Industries Corporation (NSIC) arranges supply of machines on higher purchase scheme to small scale units.

#### 4. Supply of raw materials

Arrangement has also been made for the supply of raw materials, particularly scarce and costly items to the small scale units. For eg: bakery units are getting maida, sugar, etc at concessional rate.

#### 5. Training facilities

Training for existing and proposed entrepreneurs is offered by Entrepreneurship Developing Institute of India, Technical Consultancy Organization etc at a concessional fee.

#### 6. Financial assistance

Financial assistance is provided at concessional terms by various state level financial institutions owned by government.

### **Institutional assistance to small scale industries**

In India there are various institutions which provide financial and technical assistance to small scale industries. They are:

#### **1. National Bank for Agriculture and Rural Development (NABARD)**

NABARD was set up in 1982 to promote integrated rural development. Apart from agriculture, it supports small industries, cottage industries, and rural artisans using credit and non-credit approach. It offers counseling and consultancy services and organizes training and development programs for rural entrepreneurs.

#### **2. National small Industries Corporation (NSIC)**

It was set up in 1955 to promote small business units in the country. It helps small business in the following ways:

1. Supply indigenous and imported machinery on easy hire purchase terms
2. It distributes indigenous and imported raw materials.
3. Export the products of small business units.
4. Creating awareness on technological up gradation.

#### **3. Small Industries Development Bank of India (SIDBI)**

It is an apex bank set up to meet the credit requirements of small scale sector. It was established

in 1990 and its head quarters located at Lucknow. SIDBI provide financial assistance to small scale sector in the following way:

1. Refinancing term loans
2. Discounting and rediscounting bills of exchange
3. Extension of equity type assistance
4. Providing of factoring and leasing services
4. State Industrial Development Corporation (SIDCO)

#### **4. District Industries Centers (DIC)**

It was established in 1978 to coordinate various needs of small entrepreneurs. It acts as the chief coordinator in respect of various government departments and other government agencies.

Registration of small industries is done at the DIC. They provide all services support to small entrepreneurs at under a single roof. Every district has one DIC to deal with all requirements small entrepreneurs. The important functions performed by DIC are:

1. To conduct techno-economic surveys to fix product lines .
2. To arrange artisan training programmes.
3. To advise entrepreneurs in matters relating to selecting appropriate machinery and equipments, sources of supply, assessing the requirements of raw materials etc.
4. To arrange for the financial assistance with the lead banks in the respective areas.

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