

## *Chapter 9*

### **Small Business and Entrepreneurship**

#### **VERY SHORT ANSWER TYPE QUESTIONS :**

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

**Solution:**

Some of the important parameters that are used to measure the size of business are listed below:

1. Capital invested in the business
2. Number of units produced by the business
3. Total number of persons employed by the business
4. Value of output of the goods produced
5. Power consumed by the business

**2. What is the definition used by the Government of India for small scale industries?**

**Solution:**

As per the Government of India, small scale industries are those industries where manufacturing, rendering and production of services are done on a small scale. Here the investment is one time and the value is around 1 crore. The investment is done on machinery and plants. However, some export oriented units make use of modern machinery for production and the costs can go up to 5 crore for the same.

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

**Solution:**

Basis of Comparison	Ancillary industrial units	Tiny units

Definition	Units supplying 50% of production to the parent industries are known as ancillary units.	Industries that invest less in their machinery till 25 lakh are known as tiny units.
Investment limit	Investment can go up to 1 crore	Investment can be till 25 lakh
Obligation	These units supply 50% of their production to the parent company.	There exist no such rules or obligations
Examples	Examples of such industries will be those involved in production of tools, machine spare parts, utilities for primary industries.	Example of such units are shops selling stationery, photocopy centres.

#### 4. State the features of cottage industries.

##### **Solution:**

Cottage industries are characterised by the following features:

1. These industries are owned by individuals who have invested their resources into these units.
2. Such type of industries do not hire much labour, it is mostly operated by family members.
3. Skills required for maintaining a cottage industry is often available within particular families.
4. The amount of capital invested is very less.
5. Production techniques are indigenous which requires labour-intensive work.
6. The production is primarily for consumption by self and family, while some portion of it is sold in the market to earn some money.

## LONG ANSWER TYPE QUESTIONS:

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

#### Solution:

Small scale industries contribute to socio-economic development in the following ways:

1. Small scale industries constitute the largest share of industries in India. It accounts for around 45% of total exports. Some of the most prominent industries are gems and jewellery, sports goods, handicrafts, etc.
2. Small scale industries employ the second most number of people only after agriculture and also generate more opportunities for employment as per capital invested.
3. Manufacturing simple products with minimum capital investment, they benefit the people of the region and help eradicate regional imbalances with respect to industrial development.
4. By ensuring rapid decision making it enables faster implementation of projects that results in enhanced output.
5. It requires very less capital to start, thereby providing a means to interested citizens to become self-employed
6. Custom-made products for customers who are looking for customised solutions.

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

#### Solution:

Small scale businesses help the economy in the following ways:

1. Small scale industries, especially rural and cottage industries, play a major role in providing employment opportunities to the population in rural areas. It is very helpful for people who are economically weak.
2. Small scale industries play a key role in distribution of income by providing the opportunity to set up industries all across the country.
3. As small scale businesses are active throughout the year, they provide employment opportunities round the year, and hence help in combating seasonal unemployment and improve conditions of the rural people.

4. Small scale businesses help drive the growth of economy. It accounts for 45% of overall exports, which greatly contributes to economy.
5. It helps in developing rural areas, and stops the inflow of rural population into urban areas in search of employment.

### **3. Discuss the problems faced by small scale industries.**

#### **Solution:**

Small scale industries face the following problems:

1. There exists a lack of funds for people starting in this sector as investment is mostly self-financed and the other source of funds can be from moneylenders or local financial agencies or agents.
2. Small industries often face shortage of raw materials due to unavailability of finance. Also, the lack of a proper supply chain and logistics in rural areas results in shortage of raw materials that hinders proper functioning.
3. As the wages are less, they are able to hire semi-skilled labourers, which results in lack of talented manpower that impacts their efficiency.
4. The small scale industries are unable to spend significantly on marketing due to lack of funds
5. The products need to be sold in the market and this is done with the help of middlemen, that leads to eating away of profit.
6. There are many small scale industries that make use of outdated and also obsolete machinery. This lowers productivity and renders operations non-feasible.

### **4. What measures has the government taken to solve the problems of finance and marketing in the small scale sector?**

#### **Solution:**

These are some steps taken by the government for promoting business in small scale:

1. Established National Bank for Agriculture and Rural Development (NABARD) so that rural development can be promoted. This organisation is mainly involved in providing easy and cheap credit facility to small scale industries, cottage industries and rural industries.
2. SIDBI or Small Industries Development Bank of India was set up to help in providing financial assistance to small scale industries.

3. World Association for Small and Medium Enterprises or WASME is an international non-governmental organisation that helps address the problems of medium and small-sized enterprises. It has started a committee for Rural Industrialisation for designing a model for the growth and development of rural industries.

4. The government set up NSIC or National Small Industries Corporation in 1955 to promote, foster and aid the growth of small business in the country.

5. NCEUS or The National Commission for Enterprises in the Unorganised Sector was formed in September 2004 with the primary objective of improving the small scale industries and enhance their global competitiveness. It focuses on solving problems faced by small enterprises in the unorganised sector.

### **5. What are the incentives provided by the government for industries in backward and hilly areas?**

#### **Solution:**

The following incentives are offered by the Government in backward and hilly areas:

**1. Land:** The government has offered lands at reduced rates in order to encourage setting up of small industries.

**2. Banking and Finance:** The Government is offering subsidies in loans, amounting up to 10-15% for establishing business in backward areas. This is done to encourage business, as capital is essential to start any business.

**3. Raw Materials:** Availability of raw materials for setting up industries in hilly or backward areas is very scarce, so the government has made sure to provide the raw materials such as cement, steel and iron to expedite industry set up.

**4. Tax exemption:** The Government has encouraged new business by promising tax exemption for industries in backward areas.

**5. Power:** Electricity is essential for a business and to operate machinery, so to help more businesses to start, the government is providing electricity at 50% discounted rate.