



### III. Long Answer Type Questions

Question 1. What do you mean by small business? Describe the feature of small scale enterprise.

Answer: plant and machinery should not exceed Rs 1.5 crore. However, to facilitate technology upgradation and enhance competitiveness, the investment limit has been raised to Rs 5 crore in respect of 71 high tech export oriented items in drugs, pharmaceuticals, hand-tools and knitwear sectors, etc.  
Characteristics of Small-Scale Industries:

1. Ownership: Ownership of small scale unit is with one individual in sole- proprietorship or it can be with a few individuals in partnership.
2. Management and Control: A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is actively involved in all the decisions concerning business.
3. Area of Operation: The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.
4. Technology: Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.
5. Gestation Period: Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.
6. Flexibility: Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.
7. Resources: Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.
8. Dispersal of Units: Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

Question 2. Describe briefly the problems of small scale enterprises.

Answer: Small scale industries in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, small industries face are given below.

1. Problem of skilled manpower: The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient.

Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

2. Inadequate Credit Assistance: Adequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.
3. Irregular Supply of Raw Material: Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.
4. Absence of Organized Marketing: Another important problem faced by small-scale units is the absence of organized marketing system. In the absence of organized marketing, their products compare unfavourably with the quality of the product of large-scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.
5. Lack of Machinery and Equipment: Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.
6. Absence of Adequate Infrastructure: Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.
7. Competition from Large-scale Units and Imported Articles: Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.
8. Other Problems: Besides the above problems, small-scale units have been constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and huge number of bogus concerns. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

Question 3. What incentives have been taken by government to promote small scale industries?

Answer: Many incentives are provided both by the central and state governments to promote the growth of small-scale industries and also to protect them from the onslaught of the large-scale sector. Among the various incentives given to small-scale industries the following deserve special mention:

1. Reservation: To protect the small-scale industries from the competition posed by large-scale industries, the Government has reserved the production of certain items exclusively for

the small-scale sector. The number of items exclusively reserved for the small-scale sector has been considerably increased during the Five Year Plan Periods and now stands at 822.

However, prior to the 1997-98 budget the number of items reserved for the small-scale sector stood at 836. The Finance Minister dereserved 14 items in the 1997-98 budget.

2. Preference in Government Purchases: The government as well as government Organizations shows preference in procuring their requirements from the small-scale sector. For instance, the Director General of Supplies and Disposals purchases 400 items exclusively from the small-scale sector. The National Small-Scale Industries Corporation assists the SSI units in obtaining a greater share of government and defense purchases.
3. Price Preference: The SSI units are given price preference up to a maximum of 15 per cent in respect of certain items purchased both from small-scale and large-scale units.
4. Supply of Raw Materials: In order to ensure regular supply of raw materials, imported components and equipment's, the Government gives priority allocation to the small-scale sector as compared to the large-scale sector. Further, the Government has liberalised the import policy and streamlined the distribution of scarce raw materials.
5. Excise Duty: In respect of SSI units excise duty concessions are granted to both registered and unregistered units on a graded scale depending upon their production value. Full exemption is granted up to a production value of Rs 30 lakhs in a year and 75 % of normal duty is levied for production value exceeding Rs 30 lakhs but not exceeding Rs 75 lakhs. If the production value exceeds Rs 75 lakhs, normal rate of duty will be levied.
6. RBI's Credit Guarantee Scheme: In 1960, the RBI introduced a Credit Guarantee Scheme for small-scale industries. As per the scheme, the RBI takes upon itself the role of a guarantee organisation for the advances which are left unpaid, including interest overdue and recoverable charges. This scheme covers not only working capital but also advances provided for the creation of fixed capital.
7. Financial Assistance: Small-scale industries are brought under the priority sector. As a result, financial assistance is provided to SSI units at concessional terms by commercial banks and other financial institutions. With a view to providing more financial assistance to the small scale sector, several schemes have been introduced in the recent past. The Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988. SIDF provides refinance assistance to small scale and cottage and village industries and the tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in the tiny/small-scale sector. In 1996, the small-scale sector received 42.3 per cent of the total priority sector advances from public sector banks.
8. Technical Consultancy Services: The Small Industries Development Organisation, through its network of service and branch institutes, provides technical consultancy services to SSI units. In order to provide the necessary technical input to rural industries, a Council for Advancement of Rural Technology was set up in October, 1982. The Technical Consultancy Organisation renders consultancy services to SSI units at a subsidised rate. Many financial institutions are also providing subsidies to SSI units for availing of consultancy services. For instance, small entrepreneurs proposing to set up rural, cottage, tiny or small-scale units, can get consultancy services at a low cost from the Technical Consultancy Organizations approved by the All-India and State-level

financial institutions.

They have to pay only 20% of the fees charged by a Technical Consultancy Organisation. The entire balance of 80% or Rs 5, 000 whichever is lower is subsidized by the Industrial Finance Corporation of India.

9. Machinery on Hire Purchase Basis: The National Small Industries Corporation (NSIC) arranges supply of machinery on hire purchase basis to SSI units, including ancillaries located in backward areas which qualify for investment subsidy. The rate of interest charged in respect of technically qualified persons and entrepreneurs coming from backward areas are less than the amount charged to others. The earnest money payable by technically qualified persons and entrepreneurs from backward areas is 10% as against 15% in other cases.
10. Transport Subsidy: The Transport Subsidy Scheme, 1971 envisages grant of a transport subsidy to small-scale units in selected areas to the extent of 75 % of the transport cost of raw materials which are brought into and finished goods which are taken out of the selected areas.
11. Training Facilities: The Entrepreneurship Development Institute of India, Financial Institutions, Commercial banks, Technical Consultancy organizations, and NSIC provide training to existing and potential entrepreneurs.
12. Marketing Assistance: The National Small Industries Corporation (NSIC), the Small Industries Development Organisation (SIDO) and the various Export Promotion Councils help SSI units in marketing their products in the domestic as well as foreign markets. The SIDO conducts training programmes on export marketing and organises meetings and seminars on export promotion.
13. District Industries Centers (DICs): The 1977 Industrial Policy Statement introduced the concept of DICs. Accordingly a DIC is set up in each district. The DIC provides and arranges a package of assistance and facilities for credit guidance, supply of raw materials, marketing etc.

Question 4. Describe the scope of small business in India.

Answer: In most of the developing countries like India, Small Scale Industries (SSI) constitute an important and crucial segment of the industrial sector. They play an important role in employment creation, resource utilisation and income generation and helping to promote changes in a gradual and phased manner. They have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. The reasons are obvious.

The scarcity of capital in India severely limits the number of non-farm jobs that can be created because investment costs per job are high in large and medium industries. An effective development policy has to attempt to increase the use of labour, relative to capital to the extent that it is economically efficient.

Small Scale Enterprises are generally more labour intensive than larger organisations. As a matter of fact, small scale sector has now emerged as a dynamic and vibrant sector for the Indian economy in recent years. It has attracted so much attention not only from industrial planners and economists but also from sociologists, administrators and politicians.

Scope of Small Scale Industry:

Defining small scale industry is a difficult task because the definition of small scale industry varies from country to country and from one time to the another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

Every country has set its own parameters in defining small scale sector. Generally, small scale sector is defined in terms of investment ceilings on the original value of the installed plant and

machinery. But in the earlier times the definition was based on employment. In the Indian context, the parameters are as follows. The Fiscal Commission, Government of India, New Delhi, 1950, for the first time defined a small-scale industry as, one which is operated mainly with hired labour usually 10 to 50 hands. Fixed capital investment in a unit has also been adopted as the other criteria to make a distinction between small scale and large-scale industries. This limit is being continuously raised upwards by Government.

The Small Scale Industries Board in 1955 defined, "Small-scale industry as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs 5 lakhs".

The initial capital investment of Rs 5 lakhs has been changed to Rs 10 lakhs for small industries and Rs 15 lakhs for ancillaries in 1975. Again this fixed capital investment limit was raised to Rs 15 lakhs for small units and Rs 20 lakhs for ancillary units in 1980. The Government of India in 1985, has further increased the investment limit to Rs 35 lakhs for small-scale units and 45 lakhs for ancillary units.

Again the new Industrial Policy in 1991, raised the investment ceilings in plant and machinery to ? 60 lakhs for small-scale units and Rs 75 lakhs for ancillary units.

As per the Abid Hussain Committee's recommendations on small scale industry, the Government of India has, in March 1997 further raised investment ceilings to Rs 3 crores for small-scale and ancillary industries and to Rs 50 lakhs for tiny industry. The new policy initiatives in 1999-2000 defined small-scale industry as a unit engaged in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs 100 lakhs.

In case of tiny units, the cost limitation is up to Rs 5 lakhs. Again, the Government of India in its budget for 2007-08 has raised the investment limit in plant and machinery of small-scale industries to Rs 1.5 crores. An ancillary unit is one which is engaged or proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediaries or rendering services and the undertaking supplies or renders or proposes to supply or render not less than 50% of its production or services, as the case may be, to one or more other industries undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or lease or on hire purchase does not exceed Rs 75 lakhs.

For small-scale industries, the Planning Commission of India uses terms 'village and small scale industries'. These include modern small-scale industry and the traditional cottage and household industry.

**Question 5.** Highlight the role of the small business in promoting economic growth and solving other socio-economic problems.

**Answer:** In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities.

It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small scale sector is more than five times to that of the large-scale sector.

This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry has been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

The following are some of the important role played by small scale industries in India.

1. **Employment Generation:** The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small- scale industries because small scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.
2. **Mobilisation of resources and entrepreneurial skill:** Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi- urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources are being mobilised by the small-scale sector for the development of the economy.
3. **Equitable distribution of income:** Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised section keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.
4. **Regional dispersal of industries:** There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small scale industries which utilize local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.
5. **Provides opportunities for development of technology:** Small scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.
6. **Indigenization:** Small scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing round for new ventures.
7. **Promotes exports:** Small scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs 393 erores in 1973-74 to Rs 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus they help in

increasing the country's foreign exchange reserves thereby reducing the pressure on country's balance of payment.

8. Supports the growth of large industries: The small scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing components, accessories and semi finished goods required by them. In fact, small industries can breathe vitality into the life of large industries.
9. Better industrial relations: Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man days are comparatively less in small- scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

Question 6. Explain the importance of SSI in overall development of an economy. Also discuss hurdles in its route.

Answer: Role of small scale industries:

1. Contribution in industrial production;
2. Employment creation;
3. Contribution to export;
4. The same distribution of income and prosperity.

Hurdles it faces:

Small scale industries in India can't progress satisfactorily due to various problems likely confronted with while operating enterprises. In spite of needing huge potentialities, the major problems, small industries face are given below.

1. Problem associated with Skilled Manpower: The success of your small enterprise revolves about the entrepreneur and its personnel, provided the employees tend to be skilled and efficient. Because inefficient human element and unskilled manpower create innumerable problems for your survival of small companies. Non-availability of adequate skilled manpower in the rural sector poses trouble to small scale industries.
2. Inadequate Credit Assistance: Adequate and timely supply of credit facilities is an important problem faced by small-scale companies. This is partly because of scarcity of capital and partly because of weak credit worthiness of the small units near you.
3. Irregular Supply Associated with Raw Material: Small units face severe problems in procuring the recyclables whether they use locally available recyclables or imported raw products. The problems arise because of faulty and irregular supply of raw materials. Non-availability of Sufficient variety of raw materials, sometimes poor quality of raw materials, increased cost of recyclables, foreign exchange crisis and most importantly lack of knowledge associated with entrepreneurs regarding Government insurance policy are other few hindrances regarding small-scale sector.
4. Trouble of Marketing: Another important problem confronted by small-scale units may be the absence of organized marketing system. Due to lack of organized marketing, their products compare unfavorably with the grade of the product of large- level units.  
They are also not able to get adequate information with regards to consumer's choice, taste and preferences of the kind of product. The above problems do not let them to stay out there.
5. Lack of Equipment: Small-scale units are striving hard to use modern machines and equipment in their process of

production so that you can compete with large companies. Most of the little units employ outdated and also traditional technology and products. Lack of appropriate technology and equipment create a major stumbling block for your growth of small-scale companies.

6. Absence of Ample Infrastructure: Indian economy is seen as an inadequate infrastructure which is a major problem for small units growing. Most of the little units and industrial estates found in towns and cities are having a number of problems like lack of power supply, water and drainage trouble, poor roads, raw products and marketing problem. Thus lack of adequate infrastructure adversely affects the product quality, quantity and production schedule in the enterprises which ultimately ends up with under-utilization of capacity.
7. Rivalry from Large Scale Units and also Imported Articles: Small-scale units still find it very difficult to contend with the product of large-scale units and imported articles that are comparatively very cheap and also of better quality compared to small units product.

Question 7. Name the institutions and banks set up to promote small scale industries in rural, backward and hilly areas. Explain their objectives.

Answer:

Small Scale Industry (SSI) is an industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership term or on lease or hire purchase, does not exceed Rs 1 crore. However, this investment limit is varied by the Government from time to time.

Entrepreneurs in small scale sector are normally not required to obtain a license either from the Central Government or the State Government for setting up units in any part of the country.

Registration of a small scale unit is also not compulsory. But its registration with the State Directorate or Commissioner of Industries or DIC's makes the unit eligible for availing different types of Government assistance like financial assistance from the Department of Industries, medium and long term loans from State Financial Corporations and other Commercial Banks, machinery on hire- purchase basis from the National Small Industries Corporation, etc. Registration is also an essential requirement for getting benefits of special schemes for promotion of SSI viz. Credit Guarantee Scheme, Capital subsidy, Reduced custom duty on selected items, ISO-9000 Certification reimbursement and several other benefits provided by the state government.

1. The Ministry of Micro, Small and Medium Enterprises acts as the nodal agency for growth and development of SSIs in the country. The ministry formulates and implements policies and programmes in order to promote small scale industries and enhance their competitiveness. It is assisted by various public sector enterprises like:
  - (a) Small Industry Development Organisation (SIDO) is the apex body for assisting the Government in formulating and overseeing the implementation of its policies and programmes/projects/schemes.
  - (b) National Small Industries Corporation Ltd (NSIC) was established by the Government with a view to promoting, aiding and fostering the growth of SSI in the country, with focus on commercial aspects of their operation.
  - (c) The Ministry has established three National Entrepreneurship Development Institutes which are engaged in development of training modules, undertaking research and training and providing consultancy services for entrepreneurship development in the SSI sector. These are



- (i) National Institute of Small Industry Extension Training (NISIET) at Hyderabad, National Institute of Entrepreneurship and Small Business Development (NIESBUD) at NOIDA.
  - (ii) Indian Institute of Entrepreneurship (IIE) at Guwahati.
2. The National Commission for Enterprises in the Unorganised Sector (NCEUS) has been constituted with the mandate to examine the problems of enterprises in the unorganised sector and suggest measures to overcome them.
  3. Small Industries Development Bank of India (SIDBI) acts as apex institution for financing SSIs through various credit schemes.

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