



## TEXTBOOK QUESTIONS SOLVED

### I. Short Answer Type Questions

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

Answer: Following parameters may be used to measure the size of business:

- (a) Number of workers employed
- (b) Size of plant and machinery
- (c) Total output
- (d) Inventory size

Question 2. What is the definition used by government of India for Small Scale Industries?

Answer: Government uses the criterion of size of capital employed in plant and machinery to define Small Scale Industries. It is depicted in the table given below:

| Type of Industry                                   | Investment Limit (₹)  |
|--|---|
| Small Scale Industry                               | 1 crore (For 71 products it is 5 crores)                                |
| Ancillary Industry                                 | 1 crore (50% of the output supplied to the parent unit.)                |
| Tiny Enterprise                                    | 25 Lakhs  |
| Service and Business (Industry related Enterprise) | 10 Lakhs  |
| Women Enterprise                                   | Any of the above (51% of the holding by the women and managed by women) |
| Export Oriented Units (EOUs)                       | 1 Crore (100% EOUs can sell 25% in domestic markets.)                   |

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

Answer:

| Basis of difference     | Ancillary Industrial units  | Tiny units   |
|-------------------------|---|--|
| <b>Definition</b>       | Industrial units that have to supply a minimum of 50% of their production to their parent industries are termed ancillary industrial units. | Industries that have a maximum investment of ₹ 25 lakh in their plant and machinery are termed as tiny industrial units. |
| <b>Obligation</b>       | Such units have to supply at least 50% of their production to their parent industries.  | No such obligations.   |
| <b>Investment limit</b> | The maximum level of investment is ₹ 1 crore.   | The maximum level of investment is ₹ 25 lakh.  |
| <b>Examples</b>         | Industries engaged in the production of machine parts, tools and other intermediate products.   | Business units such as small shops, boutiques, STD (subscriber trunk dialling) booths and photocopy centres.             |

Question 4. State the features of cottage industries.

Answer: The following are a few important features of cottage industries.

- Ownership: These are rural-based industries owned and operated by individuals who invest their private resources in these units.
- Level of capital and production techniques: The amount of capital is very small, and the production techniques are highly labour-intensive and indigenous.
- Employment: These industries generally do not hire labour but

employ the owners family members.

- Talent and skills: Usually, the talent and the skills required for cottage industries are found restricted to particular families. The skills are passed on from one generation to the next. For instance, the art of pottery remains restricted to potter families.
- Market: Although the production is primarily carried out for self-consumption, a portion of the output is sold in the local market as well.

## II. Long Answer Type Questions

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

Answer: Small-scale industries (SSIs) play an important role in ensuring the progress of developing countries such as India. The following points highlight their contribution.

- Market Share: SSIs make up 95 per cent of the industrial units in India. They contribute about 40 percent of the 'gross industrial value added' and 45 per cent of India's total exports.
- Regional Balance: SSIs produce simple products and use basic technology. In addition, these industries do not require heavy capital investment, and therefore, they can be set up by anyone anywhere across the country. Small units not only benefit the particular region where it is established but also help reduce the regional disparities in industrial development among different regions of a country.
- Employment Generation: As SSIs use labour-intensive production techniques, they have a greater employment generation potential than large industries. Moreover, the skills required to perform jobs in SSIs are usually not very specific, which further increases their scope for generating employment.
- Wide range of Products: Small scale units produce a large variety of consumer products, such as stationery items, safety matches, handicrafts, vegetables and processed food. Besides, SSIs also produce a few items by using technology, such as calculators, televisions and engineering goods.
- Customized Goods: Small industrial units adapt perfectly to specific needs of consumers. As SSIs use simple and highly flexible production techniques, they can provide their customers with goods best suited to the customers tastes and preferences.

Question 2. Describe the role of small business in rural India?

Answer: The following are some of the major roles played by small scale businesses in rural India.

- They generate employment opportunities: Cottage and rural industries play a significant role in providing employment opportunities, particularly to people in rural areas. This proves to be a boon especially for the economically weaker sections of the rural society.
- They enable equitable income distribution: The capital requirements of small- scale businesses are low, mainly because of their use of labour-intensive production techniques, and this encourages entrepreneurs to start units on a small scale. Small- scale businesses are, therefore, set up all over the country. Many of them providing employment opportunities to people in rural areas. This triggers the redistribution of wealth and income, and enables the equitable distribution of income in rural areas.
- They help to accelerate growth: Small-scale businesses have been considered as a major propeller for the acceleration of

economic growth and as an employment generator, particularly in the rural and backward areas of India.

- They mitigate disguised unemployment and alleviate poverty: Small-scale businesses use labour-intensive production techniques, and are, therefore, able to provide employment to the excess/surplus rural labour. Thus, small-scale businesses remove disguised unemployment from the agriculture sector and at the same time provide livelihood to the rural people. Hence, they contribute to alleviating rural poverty.
- They facilitate rural development and reduce migration from rural to urban areas: It is well known that a large number of people migrate from rural to urban areas in search of better employment opportunities and improved living standards. Small-scale businesses help reduce this migration by providing employment opportunities to rural people in their own regions. By doing so, small units also help mitigate the excessive pressure on urban infrastructure.

Question 3. Discuss the problems faced by small scale industries.

Answer:

Major problems faced by the small scale industries are:

- (1) Finance
- (2) Raw material
- (3) Idle capacity
- (4) Technology
- (5) Marketing
- (6) Infrastructure
- (7) Under Utilization of Capacity
- (8) Project Planning.

Small scale industries play a vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives i.e., generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

1. Finance: Finance is one of the most important problems confronting small scale industries. Finance is the life blood of an organisation and no organisation can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem. Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.  
After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate them working adequate credit on easier terms and conditions must be provided to them.
2. Raw Material: Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.  
Large scale units, because of more resources, normally come whatever raw material is available in the open market. Small

scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unavailable.

3. **Idle Capacity:** There is under utilization of installed capacity to the extent of 40 to 50 per cent in case of small scale industries. Various causes of this under utilization are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.
4. **Technology:** Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.
5. **Marketing:** These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e., about the competition, taste, liking, disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position. In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.
6. **Infrastructure:** Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.
7. **Under Utilization of Capacity:** Most of the small-scale units are working below full potentials or there is gross under utilization of capacities. Large scale units are working for 24 hours a day i.e., in three shifts of 8 hours each and are thus making best possible use of their machinery and equipment's. On the other hand, small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under utilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.
8. **Project Planning:** Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e., both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight age. Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details. Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This results in poor project planning and execution.

9. **Skilled Manpower:** A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers. Besides non-availability of entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.
10. **Managerial:** Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves. Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs. Of course, increase in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.

Question 4. What measures have the Government taken to solve the problem of finance and marketing in the small scale sector?

Answer: Indian Government created two ministries to promote and develop small scale industries:

1. **Ministry of Small Scale Industries.** Ministry of Small Scale Industries designs policies, programmes and schemes to promote small scale industries. Small Industries Development Organization (SIDO) is responsible for implementing and monitoring of various policies and programmes formulated by the ministry.
2. **Ministry of Agro and Rural Industries** is a nodal agency for coordination and development of village and khadi industries, tiny and micro enterprises in urban as well as rural areas. Its policies are implemented through Khadi and Village Industries Commission (KVIC), Handicrafts Board, Coir Board etc.

The small-scale sector has played a major role in employment generation, regional development and export promotion in India. The Government of India has realized that a lot more can be achieved if the two major bottlenecks that affect the further

development of SSIs—inadequate funds and inefficient market penetration—are removed. In pursuit of this objective, the government has established the following agencies.

- National Bank for Agriculture and Rural Development (NABARD): It was established in 1982 with the main objective of promoting rural development and integrating the efforts in this direction. This agency is an apex banking body that governs the operations particularly of the rural and 'Gramm' banks. The main focus of NABARD is to provide cheap and easy credit facility to small, cottage and rural industries.
- Small Industries Development Bank of India (SIDBI): It was set up to provide direct and indirect financial assistance under different schemes. It caters to the credit and finance requirements of small-scale enterprises.
- World Association for Small and Medium Enterprises (WASME): It is an international non-governmental organisation that addresses the problems of small and medium-scale enterprises. It has set up an 'International Committee for Rural Industrialisation' with the aim of designing a model for the growth and development of rural industries.
- The National Commission for Enterprises in the Unorganised Sector (NCEUS): It was formed in September 2004 with the objective of improving the efficiency and enhancing the global competitiveness of small scale industries. It focuses on addressing the problems faced by small enterprises, particularly in the unorganised/informal sector.
- Various Development and Employment Generation Programmes: Besides establishing the organisations mentioned above, the government has launched various programmes for rural development. Among the important programmes are the Prime Minister's Rozgar Yojana (PMRY), Integrated Rural Development Programme (IRDP) and Training of Rural Youth for Self-Employment (TRYSEM). These programmes are aimed at generating greater employment opportunities, developing rural areas and making the rural people self-reliant.

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

Answer: It is quite lucrative and feasible for entrepreneurs to establish industries in metropolitan and other developed cities. However, because of numerous factors such as irregular power supply, poor transport and absence of banking facilities, it is extremely difficult for them to set up industries in backward, hilly and tribal areas. As a result, there exists acute regional disparities in development between these areas and the big cities in the country. The Government of India has been making efforts to remove the regional imbalances in development by providing incentives for setting up industries in rural areas. The following are among the incentives offered.

- Land: It is a basic requirement for setting up a business unit. In order to encourage the establishment of industries in backward areas, the government provides land plots at concessional rates, especially to industrialists in backward regions. This makes setting-up industries cheaper.
- Power: Power is an essential requirement for the functioning of business enterprises. However, its supply is highly irregular in some parts of India. Therefore, in order to facilitate the setting up of industries in these areas, electricity is supplied at a discounted rate of 50 per cent. In addition, some states exempt such units from any payment during the initial years of operation.
- Banking and finance: Due to the poor banking facilities,

industries set up in the backward areas face the problem of inadequate credit and finance. As a solution, the government provides loans at a concessional rate and offers subsidies of 10 to 15 per cent for the accumulation of capital assets.

- Raw Materials: Resources such as cement, iron and steel are of prime importance for industries. Since these resources are scarce, the government provides them on priority basis to industries located in backward areas.
- Tax Exemption: In order to attract entrepreneurs to set up industries in the backward areas, different state governments grant tax exemption to the industries. Thus, the industries are exempted from paying taxes for 5 to 10 years.

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