

## Exercises

### Short Answer Questions

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

#### Answer

The different parameters that are used to measure the size of a business are:

- The number of persons employed in business
- Capital invested in business
- Volume of output or value of output of business
- Power consumed for business activities.

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

#### Answer

The Government of India defines small industries on the basis of their investment in plant and machinery. Industries where the amount invested in the fixed assets (particularly plant and machinery) is less than Rs. 1 crore are regarded as small-scale industries. However, export-oriented units that use modern production techniques are considered as small-scale industries if their investment does not exceed Rs. 5 crore.

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

Answer

Ancillary Unit	Tiny Unit
An ancillary unit is the unit which supplies minimum 50% of its production to the parent unit.	A tiny unit is the business enterprise whose investment in plant and machinery is not more than Rs. 25 lakh.
Investment limit in this unit is one crore.	Investment limit in this unit is Rs. 25 lakh.
Parent unit assists the ancillary unit by providing technical and financial help.	No such assistance is present here.
Industries engaged in the production of machine parts, tools and other intermediate products are example of this industry.	Business units such as small shops, boutiques, STD booths and photocopy centres are examples of this industry.

4. State the features of cottage industries.

Answer

The features of cottage industries are:

- These are organised by individuals, with private resources
- It generally use family labour and locally available talent
- The equipment used is simple
- The capital investment is small
- It produce simple products, normally in their own premises
- The production of goods using indigenous technology.

Long Answer Questions

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

Answer

Small scale industries enjoys a distinct position to in view of their contribution to the socio-economic development of the country. These are:

→ 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 from India.

→ Small industries are the second largest employers of human resources, after agriculture and 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, handicrafts, vegetables and processed food. etc. They also produce electric and electronic goods like televisions, calculators etc.

→ Small industries which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialisation can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.

→ Small industries provide ample opportunity for entrepreneurship. This industry can be a good way to channelize the latent skills and talent of people.

→ These industries also enjoy the advantage of low cost of production.

Locally available resources are less expensive also establishment and running costs of these industries are lower. The low cost of production which small industries enjoy is their competitive strength.

→ Due to the small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations.

→ These industries can provide customized products and services to consumers.

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

Answer

The role of small business in rural India are:

- Cottage and rural industries play an important role in providing employment opportunities in the rural areas, especially for the traditional artisans and the weaker sections of society.
- Village and small industries are significant as producers of consumer goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment.
- These industries contribute amply to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.
- 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.
- The settlement of these industries in rural areas also help in prevention rural people to urban areas.

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

Answer

The problems faced by small scale industries are:

→ Finance: The severe problems faced by SSIs is that of non-availability of adequate finance to carry out its operations. Small business generally begins with a small capital base. Many of the units in the small sector face scarcity of capital because of their lack of assets for offering as collateral/mortgage to secure bank loans. As a result, these businesses have to rely on local financial resources and moneylenders for funds.

→ Raw materials: If raw material are available in scarce amount then SSIs have to compromise on the quality or have to pay a high price to get good quality materials. Also, they don't have enough storage facility and finance to buy goods in bulk. These things affects their business.

→ Managerial skills: Small business is generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output also SSIs cannot afford to hire professional managers.

→ Labour: Small business firms cannot afford to pay higher salaries to the employees, which affects employee willingness to work hard and produce more. Thus, productivity per employee is relatively low and employee turn over is generally high.

→ Marketing: SSIs don't have specialisation in marketing its products or services. Therefore, these business depend excessively on middlemen, who at times exploit them by paying low price and delayed payments.

→ Quality: These industries do not adhere to desired standards of quality and focus more on cutting the cost and keeping the prices low. They do not have the necessary knowledge and expertise about quality issues.

→ Capacity utilisation: Due to lack of marketing skills or lack of demand, most of the small businesses do not fully utilize their capacity. Gradually this leads to sickness and closure of the business.

→ Technology: SSIs use outdated technology which results in low productivity and uneconomical production.

→ Global Competition: Due to liberalization, privatisation and globalisation policies followed by most parts in world, small business find it difficult to stand against large industries and MNCs.

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

Answer

The small-scale sector has played a major role in employment generation, regional development and export promotion in India. The government has taken many initiatives to solve the problem of finance and marketing in the small scale sector. The government has set up various institutions to assist the small scale sector and also provide



support measures and programmes meant for the promotion of these industries:

→ National Bank for Agriculture and Rural Development (NABARD): It was setup in 1982 to promote integrated rural development. Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans. It provides credit and offers counseling and consultancy services and organizes training and development programmes for rural entrepreneurs.

→ The Rural Small Business Development Centre (RSBDC): It was set up by the world association for small and medium enterprises and is sponsored by NABARD. It provides management and technical support to current and prospective micro and small entrepreneurs in rural areas.

→ National Small Industries Corporation (NSIC): It was set up in 1955 with a view to promote, aid and foster the growth of small business units in the country. It works on promoting the use of indigenously available raw materials. It helps small businesses in exporting their products and works on developing export worthiness of products. It also provides mentoring and technology development services for small businesses.

→ 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 especially small-scale enterprises.

→ The National Commission for Enterprises in the Unorganised Sector (NCEUS): It was constituted 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.

→ Rural and Women Entrepreneurship Development (RWED): It aims at promoting a conducive business environment and at building institutional and human capacities that will encourage and support the entrepreneurial initiatives of rural people and women.

→ World Association for Small and Medium Enterprises (WASME): It is an international non-governmental organisation based in India 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.

→ Scheme of Fund for Re- generation of Traditional Industries (SFURTI): The Central Government set up this fund to make the traditional industries more productive and competitive and to facilitate their sustainable development. The main objectives of SFURTI are to develop clusters of traditional industries in various parts of the country; build innovative and traditional skills, improve technologies and encourage public-private partnerships, develop market intelligence etc.

→ The District Industries Centers (DICs) The District Industries Centers Programme was launched on May 1, 1978, with a view to providing an integrated administrative framework at the district level, which would look at the problems of industrialisation in the district, in a composite manner.

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

## Answer

Some of the incentives provided by the Government for industries in backward and hilly areas are:

→ 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.