Unit IB09: Small Business

Name: ____________________

Date: __/__/__

Meaning

In India, the 'village and small industries sector' consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and power looms. The last two come under the modern small industries, while the others come under traditional industries.

Nature

Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, volume of output or value of output of business and power consumed for business activities. However, there is no parameter which is without limitations. Depending on the need the measures can vary.

Types of Small Businesses in India

The definition used by the Government of India to describe small industries is based on the investment in plant and machinery. This measure seeks to keep in view the socio-economic environment in India where capital is scarce and labour is abundant. One more important point to note is that a definition exists only for small and tiny units but not for large and medium units.

(i) Small scale industry: A small scale industrial undertaking is defined as one in which the investment in fixed assets of plant and machinery does not exceed rupees one crore. However, to cater to the needs of small industries whose thrust is on export promotion and modernisation, investment ceiling in plant and machinery is rupees five crores.

(ii) Ancillary small industrial unit: The small-scale industry can enjoy the status of an ancillary small industry if it supplies not less than 50 per cent of its production to another industry, referred to as the parent unit. The ancillary small industry can manufacture parts, components, subassemblies, tools, or intermediate products for the parent unit. Apart from catering to the needs of the parent unit, it can do business on its own.

(iii) Export oriented units: The small-scale industry can enjoy the status of an export oriented unit if it exports more than 50 per cent of its production. It can avail the incentives like export subsidies and other concessions offered by the government for exporting units.

(iv) Small scale industries owned and managed by women entrepreneurs: An enterprise promoted by women entrepreneurs is a small scale industrial unit in which she/they individually or jointly have share capital of not less than 51 per cent. Such units can avail the special concessions offered by the government, like low interest rates on loans, etc.

(v) Tiny industrial units: A tiny unit is defined as an industrial or business enterprise whose investment in plant and machinery is not more than Rs. 25 lakhs.

(vi) Small scale service and business (Industry related) enterprises: A small scale service and business enterprise is one whose investment in fixed assets of plant and machinery excluding land and building does not exceed Rs. 10 lakhs.

(vii) Micro business enterprises: Within the tiny and small business sector, micro enterprises are those whose investment in plant and machinery does not exceed rupees one lakh.

(viii) Village industries: Village Industry has been defined as any industry located in a rural area which produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or artisan or worker does not exceed Rs. 50,000 or such other sum as may be specified by the central government, from time to time.

(ix) Cottage industries: These are also known as Rural Industries or Traditional industries. Capital investment criteria do not define them as in the case of other small-scale industries. However, cottage industries are characterised by certain features like the following:
- These are organised by individuals, with private resources;
- Normally use family labour and locally available talent;
- The equipment used is simple;
- Capital investment is small;
- Produce simple products, normally in their own premises;
- Production of goods using indigenous technology.

Type of Industry	Investment Limit (Rs)	Remarks
Small scale industry	One Crore	For specific products it is five crore
Ancillary industry	One Crore	50% of output supplied to the parent unit
Tiny enterprise	25 lakh	No location limit
Service and business (industry related) enterprises	10 lakh	No location limit
Women enterprises	Any of the above	51% equity holding by women and managed by women
Export Oriented Units (EOUs)	One crore	100%, EOUs can sell 25% in domestic market

Role of Small Business in India

(i) 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 (direct and indirect exports) from India.

(ii) Small industries are second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries

(iii) Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc.

(iv) The contribution of small industries to the balanced regional development of our country is noteworthy. 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.

(v) Small industries provide opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.

(vi) Small industries are best suited for customised production. i.e. designing the product as per the tastes/preferences/needs of individual customers,

(vii) Last but not the least, small industries have inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees.

Role of Small Business in Rural India

Traditionally, rural households in developing countries have been viewed as exclusively engaged in agriculture. There is an increasing evidence that rural households can have highly varied and multiple sources of income and that, rural households can and do participate in a wide range of non-agricultural activities such as wage employment and self-employment in commerce, manufacturing, and services, along with the traditional rural activities of farming and agricultural labour. This can be largely attributed to the policy initiatives taken by the Government of India, to encourage and promote the setting up of agro-based rural industries.

The emphasis on village and small-scale industries has always been an integral part of India's industrial strategy, more so, after the second Five Year Plan. 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.

Problems of Small Scale Industry

(i) Finance: One of the severe problems faced by SSIs is that of non- availability of adequate finance to carry out its operations. Generally a small business begins with a small capital base. Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets. These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

(ii) Raw materials: Another major problem of small business is the procurement of raw materials. If the required materials are not available, they must compromise on the quality or have to pay a high price to get good quality materials.

(iii) 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.

(iv) 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 turnover is generally high.

(v) Marketing: Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements. In most cases, marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

(vi) Quality: Many small business organisations do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low.

(vii) Capacity utilisation: Due to lack of marketing skills or lack of demand, many small business firms must operate below full capacity due to which their operating costs tend to increase.

(viii) Technology: Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.

(ix) Sickness: Prevalence of sickness in small industries has become a point of worry to both the policy makers and the entrepreneurs. The causes of sickness are both internal and external.

(x) Global competition: Apart from the problems stated above small businesses are not without fears, especially in the present context of liberalisation, privatisation and globalisation (LPG) policies being followed by several countries across the world.

Institutional Support

1. National Bank for Agriculture and Rural Development (NABARD): NABARD was setup in 1982 to promote integrated rural development. Since then, it has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.
2. The Rural Small Business Development Centre (RSBDC): It is the first of its kind set up by the world association for small and medium enterprises and is sponsored by NABARD. It works for the benefit of socially and economically disadvantaged individuals and groups.
3. National Small Industries Corporation (NSIC): This was set up in1955 with a view to promote, aid and foster the growth of small business units in the country. A new scheme of 'performance and credit rating' of small businesses is implemented through National Small Industries Corporation (NSIC)
4. Small Industries Development Bank of India (SIDBI):
   - Set up as an apex bank to provide direct/indirect financial assistance under different schemes, to meet credit needs of small business organisations.
   - To coordinate the functions of other institutions in similar activities.
5. The National Commission for Enterprises in the Unorganised Sector (NCEUS): The NCEUS was constituted in September 2004, with the following objectives:
   - To recommend measures considered necessary for improving the productivity of small enterprises in the informal sector.
   - To generate more employment opportunities on a sustainable basis, particularly in the rural areas.
6. Rural and Women Entrepreneurship Development (RWED): The Rural and Women Entrepreneurship Development programme 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.
7. Scheme of Fund for Regeneration of Traditional Industries (SFURTI): To make the traditional industries more productive and competitive and to facilitate their sustainable development, the Central Government set up this fund with Rs. 100 crores allocation to begin within the year 2005.
8. The District Industries Centres (DICs): The District Industries Centres 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.

Incentives by the Government

1. 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.
2. Power: Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.
3. 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.
4. Sales Tax: In all union territories, industries are exempted from sales tax, while some states extend exemption for 5 years period.
5. Octroi: Most states have abolished octroi.
6. 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.
7. 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.
8. Tax holiday: Exemption from paying taxes for 5 or 10 years is given to industries established in backward, hilly, and tribal areas.