

**3.1 Introduction**

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Arun and Anil are good friends who have completed a vocational course in entrepreneurship after their school education. They were contemplating the idea of setting up a small business, using the skills they had learnt in their course. However, they knew very little about business. They were wondering what business to start, where to locate it, how to procure machinery and materials needed for the business, how to raise money and how to do marketing? They came across a notification given by the District Industries Centre located near the industrial estate in Pune District, regarding a seminar on Government's assistance for a small business, aimed at young entrepreneurs. Excited with the news, the two friends decided to attend the seminar. They were told about the financial and other assistance offered by the Central and State Governments under the Rural Employment Generation Programme to the educated youth. They found that Mango juice and Kokam juice were in demand and decided to manufacture Mango juice and Kokam juice. They started a Small Scale industry in their village by taking financial assistance with the help of Khadi and Village Industries Commission. Today, they are successful in marketing of Mango Juice, Kokam Juice. In the near future, they plan to get into export market as well.

**3.1 INTRODUCTION**

Rising population must be given opportunities of means of livelihood. The problem of unemployment is becoming more serious in India. In post independence period more attention is given to the development of Small Scale industries. However the problem of unemployment is not overcome by new industrial policies. There is huge importance of farming industries, Small Scale industries and cottage industries in Indian economy. As far as developing country like India is concerned, it is necessary to make available the capital and other resources for Small Scale Industries. It is the fact that unskilled and semi skilled artisans required for any Small Scale Industries are easily available in large number in rural area. Small Scale Industries play an important role in such types of developing countries where there is availability of less capital and more manpower. Small Scale Industries are those industries in which manufacturing, providing services, productions are done on small scale or micro scale.

### 3.1.1 Meaning

Traditionally the industries in India which are organized on a Small Scale and produce goods with help of machines, labour and power are considered as Small Scale Industries.

Initially two categories were considered, those using power with less than 50 employees and those not using power with employee strength more than 50 but less than 100. However capital resources invested in plant and machinery, building etc. have been the primary criteria to differentiate small business from large and medium scale business.

- An industrial unit can be categorized as small business if it fulfills the capital investment limit fixed by Government of India according to Micro Small and Medium Enterprises Development Act (MSMED) 2006.
- Business is classified into two sectors.
  - 1) Manufacturing sector
  - 2) Services sector

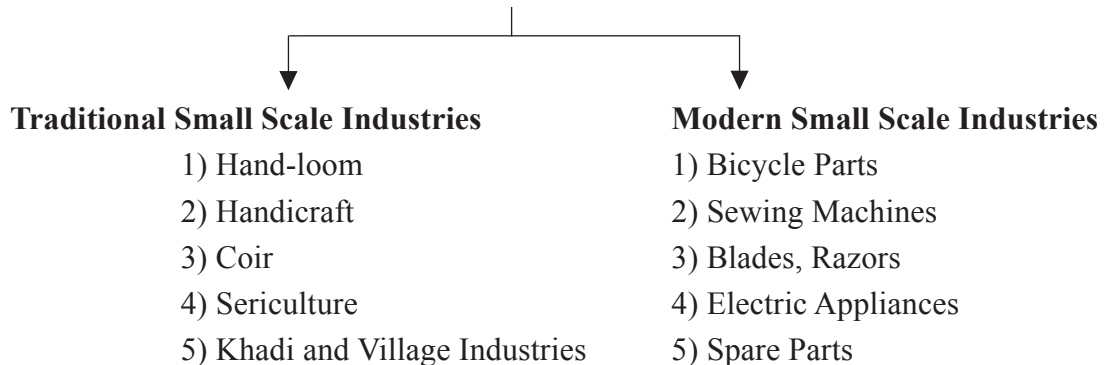
#### Classification of Business on the basis of Investment according to MSMED

Business	Manufacturing Sector	Services Sector
Micro	Does not exceed ₹ 25 lakhs	Does not exceed ₹ 10 Lakhs.
Small	More than ₹ 25 lakhs but does not exceed ₹ 5 crores.	More than ₹ 10 lakhs but does not exceed ₹ 2 crores
Medium	More than ₹ 5 crores but does not exceed ₹ 10 crores	More than ₹ 2 crores but does not exceed ₹ 5 crores

### 3.1.2 Definition

- Any Industrial Unit is regarded as Small Scale Industry, if the following condition is satisfied.  
“Investment in fixed assets like plant and equipment either held on ownership terms or on lease or hire purchase should not be more than one crore. However, the unit in no way can be owned or controlled or auxiliary for any other industrial unit.”

#### Classification of Small Scale Industries



### 3.2 IMPORTANCE OF SMALL SCALE INDUSTRIES

Small Scale Industries (SSI) play a vital role in the development of economy. It boost to agriculture and agro based sector.

- 1) **Job Opportunities** : SSI is second largest industry which creates huge employment

opportunities. Because it can be operated with minimum amount of capital. SSI can be run with basic and potential skills. This is a boost for a labour surplus country like India.

- 2) **Regional Balance :** In India, all regions are not developed due to lack of industrialization SSI can be setup with minimum amount of capital. Small industries manufactures products using simple technologies, local available resources, material and labour. Thus, they contribute significantly to the balanced development of the country.
- 3) **Increase Competitive Strength :** Small scale industries enjoy the advantages of low cost of product. These industries use locally available resources which are less expensive. Establishment and running costs of small industries are comparatively less. Low cost of production, low overheads, ultimately result in low price of goods. Increased turnover increases competitive strength.
- 4) **Maximum Use of Natural Resources :** Small scale industries are labour intensive. They utilize available natural resources and raw materials from local areas. Such use of local natural resources minimizes the cost of production which result into reasonable price of the goods.
- 5) **Reduces Migrations :** Small Scale industries can create a large number of employment in rural area. small scale industry is also a best example of self employment. Therefore, migration of people from rural area to urban area can be reduced or minimized.
- 6) **Support to Large Scale Industries :** Maximum large scale industries depend upon small scale industries. Many Small Scale industries provide raw material, semi finished goods to large scale industries. For e.g. spare parts.
- 7) **Developing New Entrepreneurs :** Small enterprises have the potential to attract the young aspirants to entrepreneurship. Small Scale Industry can accommodate the technical and non-technical young first generation entrepreneurs. India is the country of villagers. Therefore government has to pay attention to the development of small and cottage industries in order to create a balanced economy.



#### Activity

Find out available raw materials being used in SSI in your areas. How many industries or businesses units set up are based on it?

### 3.3 ADVANTAGES OF SMALL SCALE INDUSTRIES

Small Scale industries have always played an important role in the economic development of the country. The following are the advantages of Small Scale Industries.

- 1) **Large Employment :** India is labour abundant country. Small Scale Industries have potential to create employment opportunities on a mass scale. They are labour intensive They use more labour than other factors of production. Their gestation period is low and can provide employment opportunities to large number of people.
- 2) **Less Capital Requirement :** SSI requires less capital as compared to large scale industries. SSI can be started and run by small entrepreneurs with limited capital resources.

- 3) **Utilization of Domestic Resources :** SSI make use of local resources which are available in a greater extent. Small amount of savings which normally remains idle are now channelized. This will increase capital formation and investment in the economy.
- 4) **Increases Industrial Output :** SSI produce consumer goods as well as industrial components. The goods are cheaper and satisfy the needs of poor sections of the society. Products produced by SSI form a significant portion of industrial output of a country.
- 5) **Contribution to Export :** Nearly 40% of the industrial exports are contributed by SSI. Product such as hosiery, knitwear, gems and jewellery, handicrafts, coir products, woolen garments, processed food, chemical and allied products and a large number of engineering goods contribute substantially in India's exports. Also products produced by SSI are used in the manufacturing of products by large scale industries which are exported. It contribute directly and indirectly to exports and earn valuable foreign exchange.
- 6) **Equitable Distribution :** Large scale industries lead to inequalities in income distribution and concentration of economic power. But small scale industries distribute resources and wealth more equitably. This is because income is distributed among more number of workers as it is labour intensive. This results in both economic and social welfare.
- 7) **Earning Foreign Exchange :** Small scale industries earn valuable foreign exchange for the country by exporting products to different countries of the world. At the same time, their imports are very little. e.g. The Small Scale industries in Tiruppur contribute to a substantial portion of India's textile export and earn valuable foreign exchange for the country.
- 8) **Opportunities for Entrepreneurship :** Small scale industries provide opportunities for entrepreneurs with limited capital. SSI requires less capital and lower investment in technology and machines as compared to large scale enterprises. Therefore small entrepreneurs can start small scale industries easily. SSI in Japan, which was devastated by the second world war became a major economic power because of many small entrepreneurs who contributed greatly to the nations development.
- 9) **Cost Efficiency :** Small Scale units can adopt micro production method which offer better quality and more variety at a lower cost. They are most cost effective as compared to large scale, because their expenses are lower.
- 10) **Reduces Migration :** Migration happens when people living in rural areas are not able to find employment and therefore, they migrate to urban areas seeking employment. Large scale migration puts tremendous pressure on land, water and other resources in urban areas. The skills and talents of rural craftsmen, artisans etc. leads to gainful employment to those with inheritant skills resulting in their economic upliftment. Thus Small Scale industries help in reducing migration.
- 11) **Flexibility in Operation :** Small scale industries are more flexible. They can adopt themselves to changing market requirement very fast.



### Activity

- Visit to the Small Scale industries in your area. Talk and discuss with the owner and workers of the industry and write a detailed report based on your observation. It should contain following points –  
Formation and nature, product specialization, Revenue and Expenditure of business, Methods of sales, Problems of that particular industry.



### Activity

- Visit to 2 to 3 Small Scale industries near by and observe infrastructure conditions. Compare infrastructure of those industries and find out whether there is any relation between productivity and infrastructure of industry.

## 3.4 CHALLENGES BEFORE SMALL SCALE INDUSTRIES.

In India, Small scale industries are facing many difficulties and problems. So there is adverse effect on their work. The following are the challenges before Small scale industries.

- 1) **Old Methods of Production** : Generally Small scale industries use outdated technology and old methods of production. The use of low grade technical know-how and skills is resulting in low productivity in many industries.
- 2) **Inadequate Finance** : Non availability of adequate finance is a serious problem faced by Small scale industries. Generally, SSI begins with a small capital base. Many of the units in the small sector raise funds from capital market. These units frequently suffer from lack of adequate working capital.
- 3) **Problem of Raw Material** : Another major problem of Small scale industries is inadequate supply of raw materials. Due to that SSI have to compromise on the quantity and quality of raw material, or pay more price to good quality of raw material.
- 4) **Labour Problem** : Most of the small industries recruit unskilled and semi skilled workers on daily wages. This creates the problem of low labour productivity, higher absenteeism and poor job commitment. The wages are low due to financial limitations which turn into labour dissatisfaction and increases labour turnover. Improper shifts and lack of job security makes employment in small industries unattractive and the talented work force does not opt for such job.
- 5) **Marketing Problem** : Marketing is one of the most important activity as it generates revenue. Effective marketing of goods requires a thorough understanding of the customers needs and requirements. In most cases, marketing is a weaker area of small industries. These SSI have to depend excessively on middlemen who at times exploit them by paying low prices and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.
- 6) **Problem of Transport** : It is necessary for SSI to spend on transporation of raw material and finished goods. Due to lack of transport facility, it is difficult to transfer raw material from market to factory and finished product from factories to consumers.

- 7) **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. Internal problems includes lack of skilled and trained labour, lack of managerial and marketing skills etc. External problems includes delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.
- 8) **Power Shortage and Irregular Supply** : Higher cost of power acquisition, load shedding, frequent power cuts, irregular supply of power, voltage fluctuation and rising power charges badly affect the productivity.
- 9) **Global Competition** : Apart from the problems stated above, small businesses are facing problems on the context of Liberalization, Privatization and Globalization (LPG) policies being followed by several countries across the world.

### 3.5 STEPS IN SETTING UP OF A SMALL SCALE BUSINESS

Small scale business provides more independence than the large scale business and through this type of business one can fulfill their dream to become entrepreneur. One can set up Small scale business by following the simple steps which are as follows.

- 1) **Decision of Business Area** : One need to prepare the description for the Small scale business one wants to setup. It is necessary to decide whether one wishes to set up a corporation, proprietorship or partnership. The potential entrepreneur has to analyze his strength, weakness while deciding for entrepreneurship career. This analysis helps in knowing what type and size of business would be the most suitable.
- 2) **Study of Business Environment** : Before setting up an industry, it is always essential to study and understand the prevailing business environment in which they operate particularly the industrial policy, economic policy, licensing policy, legal environment, and technological environment. The environment impacts a lot in setting up a proper industry.
- 3) **Selection of Product** : One needs to decide the product to manufacture or the service to offer. While choosing the product or service which one wants to offer, one must conduct a good market research and learn about the prevailing competition in the market.
- 4) **Selection of Place** : One needs to choose a location to set up small scale business. While choosing the location, factors such as nearness to market, sources of availability of raw materials, labour, transportation services, modern infrastructural facilities and other things are considered. Location determines the success or failure of the industries.
- 5) **Selection of Technology** : To manufacture any item technology is used. Entrepreneur should posses information of all available technologies and its suitability. It will be also useful to determine the need of money, material and equipment to be installed.
- 6) **Business Proposal** : Project appraisal means the assessment of a project. It is a technique for analysis of a scheme or project while preparing to set up an enterprise. The entrepreneur has to appraise the project carefully from the economic, financial, technical, market, social and managerial point of view.
- 7) **Finance** : Finance is the lifeblood of the enterprise. So, the next big step is to arrange for finance. No business can be created, with zero capital. If one dosen't have enough finance then the best way is to borrow from outside.

- 8) **Registration :** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form from District Industries Centre (DIC). After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC.
- 9) **Actual Arrangements of Resources :** The required resources are arranged.
- a) **Physical Resources :** This includes allocating space for different operations and choosing production methods. One is required to purchase machinery and hire employees and workers for different departments.
- b) **Arrangement of Power and Water Supply :** The sites where the enterprise will be located should either have adequate power connections, or it should be arranged. The entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be available for a business, as it can materially affect the installation cost.
- c) **Staffing :** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower are to be decided. The sources of getting desired labour is also important. This follows the recruitment, training and placement.
- 10) **Production and Marketing of Product :** Production is the next step. Once Small scale business is started. Marketing is the most important activity as far as the entrepreneurial development is concerned. Marketing and business advertising form next step of setting up Small Scale business. Online business directories and various traditional forms of advertising can gain exposure for business.
- 11) **Review or feedback for Future Changes :** Periodical monitoring and evaluation not only of markets but also production quality and profitability help in knowing where the firm stands in comparison to the performance envisaged in the business plan. It also identifies the direction of future growth.

It can be concluded that setting up Small scale business is not a difficult task. The steps to set up Small scale business are simple and easy than the large scale business. So if one wants to set up business, one can surely go for it. It is profitable, easier and helps in the growth of the economy of the country.



### Activity

- Go to your local market, where agro based products are sold. Prepare a list of few products and ask questions and discuss with sellers on basis of following points.
  - a) From where have they brought product? (Homemade or not?)
  - b) What are problems related with raw material and transportation?
  - c) Whether they are happy with present profit?
  - d) What are their expectation from Government and local market?



### Activity

- Collect information and discuss in detail business surroundings of your own native place. Which industry is the best to start there according to the points studied in this topic. Make a detailed survey and support your opinion.

## SUMMARY

### ❑ Introduction

Small business plays vital role in rural India by generating employment opportunities. Problem of rural economy are inter related which are mostly solved by small businesses.

In short, small business industry is highly labour intensive requires less capital but generates employment on large scale and contributes to total export of the country.

### ❑ Business is classified into two sectors.

- 1) Manufacturing sector
- 2) Services sector

### ❑ Importance of Small scale industries

- 1) Job opportunities.
- 2) Regional balance.
- 3) Increase competitive strength.
4. Maximum use of natural resources.
- 5) Reduces migrations.
- 6) Support to large scale industries
- 7) Development of new entrepreneurs.

### ❑ Advantages of Small scale industries

- 1) Large employment.
- 2) Less capital requirement.
- 3) Utilization of domestic resources.
- 4) Increases industrial output.
- 5) Contribution to exports.
- 6) Equitable distribution.
- 7) Earning foreign exchange.
- 8) Opportunities for entrepreneurship.
- 9) Cost efficiency.
- 10) Reduces migration.
- 11) Flexibility in operation.



❑ **Challenges before Small scale industries**

- 1) Old methods of production
- 2) Inadequate Finance
- 3) Problem of raw material
- 4) Labour problem
- 5) Marketing Problem
- 6) Problem of transport
- 7) Sickness
- 8) Power shortage and irregular supply
- 9) Global competition.

❑ **Steps in setting up of a Small scale business.**

- 1) Decision of business area
- 2) Study of Business Environment
- 3) Selection of Product
- 4) Selection of Place
- 5) Selection of Technology
- 6) Business Proposal
- 7) Finance
- 8) Registration
- 9) Arrangement of Resources
  - a) Physical Resources
  - b) Arrangement of Power and Water Supply
  - c) Staffing
- 10) Production and Marketing of product
- 11) Review or feedback for future changes

**Classification of Business on the basis of Investment according to MSMED**

<b>Business</b>	<b>Manufacturing Sector</b>	<b>Services Sector</b>
Micro	Does not exceed ₹ 25 lakhs	Does not exceed ₹ 10 Lakhs.
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❑ **Career opportunities**

- 1) Small entrepreneur
- 2) Small industries
- 3) Agro based industrialist
- 4) Dairy plant

- 5) Small Engineering Unit
- 6) Leather industrialist
- 7) Textile industries
- 8) Pharma product industries

#### 4 Reference

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- 3) YCMO University – Business organization and administration
- 4) Maharashtra State Board of Higher Secondary Education Board Pune (XI Commerce)
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### EXERCISE

#### Q.1 A) Select the correct option and rewrite the sentence.

- 1) The problem of ..... has been becoming more serious in India.  
a) employment                      b) unemployment                      c) pollution
- 2) India is ..... abundant country.  
a) labour                              b) money                              c) material
- 3) ..... cost of power acquisition, frequent power cuts, irregular supply of power affect the productivity of SSI.  
a) High                              b) Lower                              c) Average
- 4) Before setting up business, it is essential to study prevailing ..... environment.  
a) business                              b) natural                              c) political
- 5) Small Scale Business are ..... intensive.  
a) money                              b) power                              c) labour
- 6) Occurring obscured idea in mind of entrepreneur is ..... stage of establishing business.  
a) first                              b) second                              c) third
- 7) Small Scale industries contribute nearly .....to the industrial exports of the country.  
a) 40%                              b) 60%                              c) 20%

**B) Match the pairs.**

Group 'A'		Group 'B'	
A)	Micro-Manufacturing sector	1)	Handloom
B)	Traditional Small Scale business	2)	Unskilled or skilled
C)	Registration	3)	Does not exceed ₹ 25 lakhs
D)	Labour	4)	40% of exports of India
E)	Bicycle	5)	Does not exceeds ₹ 1 lakhs
		6)	DIC
		7)	Marketing Problem
		8)	Modern Small Scale business
		9)	Project Appraisal
		10)	Cost-efficiency

**C) Give one word/phrase/term. For the following sentences.**

- 1) A sector which is back bone of rural India.
- 2) An industry using power with less than 50 employees.

**D) State True or False.**

- 1) Small Scale industries should be developed in order to maintain, economic balance in a country
- 2) Majority Small Scale industry uses advanced technology.
- 3) Small Business easily get access to low interest rates.
- 4) Small Business can not survive in the competition.

**E) Find the odd one.**

- 1) Coir, Handicraft, Spare Parts, Hand-loom
- 2) Bicycle Parts, Sericulture, Electronic Appliances, Sewing machine

**F) Complete the sentences.**

- 1) ..... Industries play an important role in developing countries.
- 2) SSI is ..... largest industry which creates huge employment opportunities.
- 3) SSI enjoys the advantage of ..... cost of the produce.
- 4) SSI are ..... intensive.
- 5) SSI requires ..... capital as compared to large scale industries.
- 6) SSI produce consumer goods as well as ..... components.

**G) Complete the following table.**

A		B
1)	More than ₹ 25 lakhs but Does not exceed ₹ 5 cores	.....
2)	.....	Does not exceed ₹ 25 lakhs
3)	More than ₹ 5 cores but does not exceed ₹ 10 cores	.....
4)	.....	Does not exceed ₹ 10 lakhs
5)	More than ₹ 10 lakhs but does not exceed does not exceed ₹ 2 cores	.....

(Small manufacturing Sector, Micro manufacturing Sector, Micro Service Sector, Medium Manufacturing Sector, Small Service Sector)

**H) Answer in one sentence.**

- 1) What is SSI?
- 2) State the examples of Traditional Small Scale Industry.
- 3) Give the examples of Modern Small Scale Industry.

**I) Correct the underlined word and rewrite the following sentence.**

- 1) The problem of employment has been becoming more serious in India.
- 2) India is material abundant country.
- 3) Small scale Industry uses advanced technology.
- 4) SSI begin with large amount of capital.
- 5) Business proposal is the first step in setting up of a small scale business.

**J) Arrange in proper order.**

- a) Selection of a place
- b) Selection of a product
- c) Business proposal
- d) Selection of technology

**Q.2 Explain the following terms/concepts.**

- 1) Small Scale Industry
- 2) Service Sector
- 3) Micro Small Scale Business
- 4) Traditional Industrial Sector
- 5) Modern Industrial Sector

**Q.3 Study the following case/situation and express your opinion.**

- 1) Mr. Ram wants to start Small Scale business of manufacturing parts of bicycle or machinery.
  - i) Identify the first step or stage of setting up his Small Scale business.
  - ii) Identify the sector in which Mr. Ram wants to start the business?
  - iii) State any one advantage of small scale business.

**Q.4 Answer in brief.**

- 1) State any four points of importance of Small Scale Industry/Business.
- 2) Write any four advantages of Small Scale Industry.
- 3) State any four challenges before Small Scale Industries.

**Q.5 Justify the following statements.**

- 1) Generally Small Scale Industries are sick.
- 2) Small Scale Industry requires less amount of capital.
- 3) Small Scale Industries have problems.

**Q.6 Attempt the following.**

- 1) Explain the meaning of Small Scale industries.
- 2) State the importance of small business.
- 3) Explain in brief the impact of capital on Small Scale industries.
- 4) State any five problem faced by Small Scale industries.
- 5) Explain the role of Small Scale industries in employment generation.

**Q.7 Answer the following.**

- 1) Explain the challenges before small business.
- 2) Write down the benefits of small business.
- 3) Explain the process of establishment of Small Scale industries.
- 4) Explain the importance of small business.
- 5) It is clear that the absence of capital and raw material is the main reason for the short term sickness. Explain it.



### ☞ Just to Know ☞

#### **Cabinet approves proposal for Amendment to the MSMED Act 2006.**

- The Union cabinet chaired by the Prime Minister has approved change in the basis of classifying Micro, small and Medium enterprises from ‘investment in plant and machinery equipment’ to ‘annual turnover’
- Section 7 of the Micro, small and Medium Enterprises Development (\*MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows.
- A Micro enterprises will be defined as a unit where the annual turnover does not exceed five crore rupees.
- A small enterprise will be defined as unit where the annual turnover is more than five crore rupees but does not exceed Rs. 75 crore.
- A Medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs. 250 Crore
- Additionally the Central Government may by notification, vary turnover limits, which shall not exceed there the limits specified in section of the MSMED Act.
- The change in the norms of classification will enhance the ease of doing business. The consequent growth will pave the way for increased direct and indirect employment in MSME sector of the country .