

Date :	FYJC	Duration: 1 Hr. 15 Min.
Marks : 30	Subject : Organisation of Commerce & Management	Set No. :
	Ch. 2. Small Business	

SOLUTION

Q.1. (A) Select the correct answer from the possible options given below and rewrite the statement: (05)

1. The investment limit for the tiny sectors will continue to be
(a) ₹ 10 lakhs (b) ₹ **25 lakhs** (c) ₹ 1 lakhs
2. Manual skills of elder generations can be utilized in industry..
(a) Small scale (b) Large scale (c) **Cottage**
3. Sericulture is mostly developed in part of India.
(a) Northern (b) **Southern** (c) West Bengal
4. Shivaraman Committee has suggested establishment of
(a) SWS (b) KVIC (c) **NABARD**
5. We can trace origin of concept of 'Mahila Bachat Gat' in
(a) India (b) Pakistan (c) **Bangladesh**

Q.1. (B) Match the correct pairs: (03)

	Group "A"		Group "B"
1.	Turmeric Production	a)	Cottage Industry
2.	Consumer goods	b)	Sangli
3.	Infrastructure problem	c)	Ratnagiri
		d)	Large Industries
		e)	Power Shortage

Ans. : (1- b), (2 – a), (3 – e).

Q.1. (C) Write a word / term / phrase which can substitute each of the following statements: (02)

1. Business which requires low gestation period. – **Small Business**
2. An industry in which mostly operations by hands are involved. – **Cottage Industry**

Q.2. Write short note on : (05)

1. **Define cottage industry. Explain the basic features of the cottage industry.**

Ans: Definition:

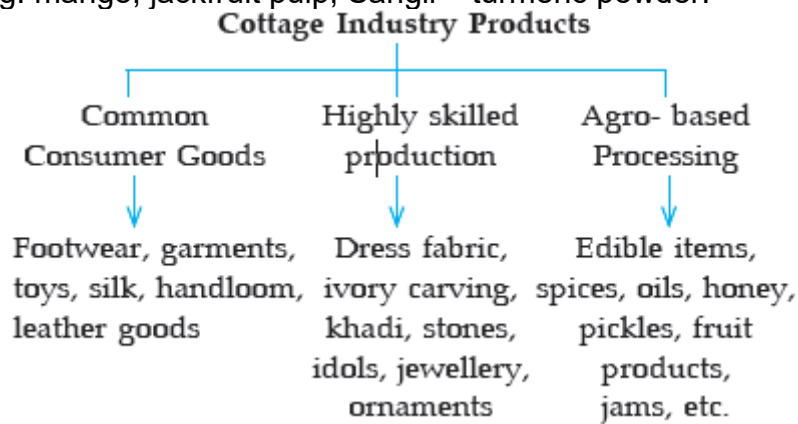
"An industry where the creation of product and services is home based rather than factory based and for which specific skill is required is called cottage industry."

Products and services created by the cottage industry are often unique and distinctive. Production of commodities takes place at home and labour is supplied by family members. Use of traditional machinery is common. There is usually no mass production.

Basic Features of Cottage Industry:

- (1) **Unorganised nature:** Cottage industries are scattered all over the country. They function at different levels – district, taluka, village, towns, etc. They are specialized in consumer products but are not organized due to the absence of a common network. Therefore, one can observe a large number of same consumer products available in the market by different manufacturers, especially edible items like spices, pickles, etc.

- (2) **Use of traditional techniques:** Cottage industries are seen in skill based production activities. They are characterized by a low degree of mechanisation and are usually family based. Some units belonging to this sector produce selective goods of high skill and workmanship like carpets, wooden and ivory carving, jewellery making, etc.
- (3) **No mass production:** Cottage industries come under small scale industries. They are usually not mass producers. They produce less as compared to others, but they can maintain quality according to the expectations of customers.
- (4) **Maximum potential of employment generation:** Cottage industry is basically regarded as a self-employed industry. They absorb huge amount of surplus labour in rural economy. Cottage industry operates especially in countries where unemployment/underemployment prevails.
- (5) **Preservation of cultural heritage:** Some cottage industries produce goods which are highly skill based and require traditional techniques only. They maintain a distinct identity of their own through products. They provide a unique platform to display indigenous goods that can fairly compete with foreign goods due to the impression created by Indian culture and that makes them unique. e.g. wooden carvings, appliqué work, etc.
- (6) **Use of agricultural resources:** Some cottage industries are based on agricultural raw material which is available in that particular geographical area. They process the agricultural produce and provide inputs to agricultural sector. eg. in Konkan – fruits processing: mango, jackfruit pulp, Sangli – turmeric powder.



- (7) **Employment:** However these industries are not exclusively confined to the rural area. They may occur in urban and semi-urban areas also. They provide part-time and full time employment. They have reasonably good export potential.

Simply Read:

Short History of Cottage Industry

Since ancient times, foreign traders and merchants were attracted towards Indian products and they maintained their relations especially with Arab and Chinese merchants. Even in medieval India, Indian craftsmen and artisans flourished well under Mughal dynasties where in jewellery, stones, gems, idols, fine clothes were in demand. The East India Company entered into trading activities and it was the beginning of exploitation. When industrialization began, production of cottage industries deteriorated. However, due to Swadeshi Movement, many cottage industries flourished again e.g. khadi products.

Examples of goods produced under cottage industries (in Maharashtra)

Agro - based Goods	
(Region-wise specialized commodities)	
Konkan:	Production, processing and marketing of kokam (Gorcinia). Mango products, fruit processing at Ratnagiri, Shreewardhan, Alibag
Western Maharashtra:	Turmeric production at Sangli, sugar and agro-based products at Radhanagari, Karad, Kurundwad; Specialized in milk products.
Vidarbha:	Nagpur food processing industry.
Marathwada:	Special textiles and shawls at Aurangabad.
Skill based production	
(Region-wise specialized commodities)	
Konkan:	Wooden toys at Sawantwadi.
Western Maharashtra:	Kolhapur : Shoes, jewellery items
Vidarbha:	Machinery for food processing, metal separator - Nagpur.
Marathwada:	Imitation jewellery at Aurangabad. (Bidri work)

Q.3. State with reasons whether the following statements are True or False: (05)

1. Small business is capital intensive industry.

Ans: This statement is **FALSE**.

Small scale business is labour intensive industry.

Reasons:

- (1) An industry, needing a large amount of labour per unit of output, i.e. one in which wages form a high proportion of the costs of production is called labourintensive industry. e.g. business unit manufacturing light consumer products such as toys, cosmetics, vegetable oils, etc.
- (2) Small scale business units have a great potential to generate greater employment opportunities to the common illiterate, unskilled, poor people who constitute the bulk of population in a developing country like India.
- (3) Small scale business units use more labour power than capital equipment, like machinery, modern technology, etc. The machinery and equipment used are simple and they are generally operated manually by the workers themselves.
- (4) In small scale business units, capital investment is comparatively small because they do not employ highly mechanised means of production. The amount of working capital is usually greater than fixed capital indicating their labour intensity.

Thus, we observe that small scale business is more labour intensive.

Q.4. Long Answer : (10)

1. What are the problems faced by small business in India?

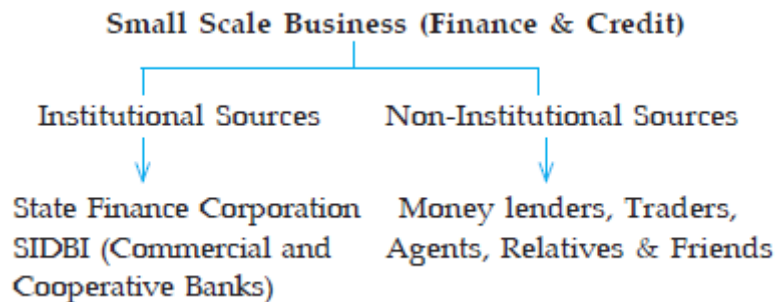
Ans:

- (a) The small scale and cottage industries face a number of problems because they are small in size. It prevents them from taking advantage of economies in large scale production.
- (b) At the same time, the units have little motivation to expand in size and they are not able to take advantage of various government incentive schemes.
- (c) As a result, many small scale units in India turn sick and a large number have to close down.
- (d) The level of sickness is very high in small units. At the end of March 2007, it was found that 1, 14, 132 units were sick. An amount of ` 5,267 crore of bank credit was blocked in them.
- (e) Only a small number of these units have been identified by the banks as potentially viable.

The main problems that small business units are facing are as follows:

(1) Finance and Credit:

- (a) Lack of finance is the most serious problem faced by small business. The position of cottage & village industries in this regard is even worse.
- (b) Many small units have partnership or single ownership. Their capital base is weak.
- (c) Artisans or craftsman running cottage industries take credits from Mahajanans or traders who supply raw materials to them and thus face exploitation.
- (d) For small scale industries, their credit needs are met both by institutional and non-institutional sources of finance.



However, funds allocated to this sector through institutional sources are inadequate. Small businesses are forced to borrow from the non-institutional sources at high rates of interest.

(2) Non-availability of raw materials:

- (a) Many small scale and cottage units depend on local sources for raw materials. Traders and agents supplying these raw materials often exploit the owners of tiny and cottage units by charging higher prices.
e.g. The handloom industry depends on local traders for its requirement of cotton. These traders often supply cotton on the condition that the weavers would sell the cloth only to them. They insist on buying the finished products at a lower rate. Thus, small business owners are subjected to double exploitation.
- (b) Further, shortage of raw materials often takes place due to reasons like natural calamities, transport problems and industrial strikes. Besides shortage, other problems related to raw materials are poor quality, lack of standardization and high cost.
- (c) Some small business use imported raw materials. There may be difficulty in obtaining them due to import restrictions, foreign exchange crisis, rise in international prices, etc.
All these problems directly affect capacity utilization and profitability of small business units.

(3) Problems of Infrastructure:

- (a) If infrastructure facilities are inadequate, all efforts of small businessmen become futile.
- (b) Many small business have been forced to close down due to acute power shortage in some parts of the country. Power is a serious constraint in terms of power cuts, voltage level, safety of the power, lines, billing & overall functioning of the system.
- (c) Besides power shortage, the small business is also affected by transport. Problems like congestions, bottlenecks, strikes and rise in freight charges are common in today's world.
- (d) Many units face problems of accommodation in terms of inadequate space, state of bad repairs of the premises, unsuitable location & high rent.
- (e) Problematic infrastructure definitely affects the smooth working of small business.

(4) Outdated technology and old methods of production:

- (a) Only a small segment of small scale industries uses the latest and advanced technology. The rest of the units do not have access to such technology. The use of low-grade technical know-how and skills have resulted in low productivity in many industries.
- (b) Many units in small business make use of primitive methods of production. When production takes place with old equipments, it increases the cost of production, while the productivity is low.
- (c) Moreover, small scale units often do not care about the changing tastes and fashions of people.
- (d) Accordingly, modernization and rationalization are urgently required in small business.

(5) Marketing Problems:

- (a) Effective marketing of goods require a deep understanding of customers needs and requirements.
- (b) Most small business units are unable to incur enough marketing expenses to expand the size of their markets. Problems also arise because of dealing in only one product.
- (c) These organizations depend excessively on middlemen who often exploit them by paying a low price and delayed payments.
- (d) Further, direct marketing may not be feasible for small businesses as they lack the necessary infrastructure. They fail to successfully compete with large scale units in the area of marketing and product promotion.
- (e) They also adopt cost oriented method of pricing. They are very often forced to restrict their sales to local markets. Recent trends show that small businesses are also facing competition from cheap imports.

The major problems related with marketing are as follows:

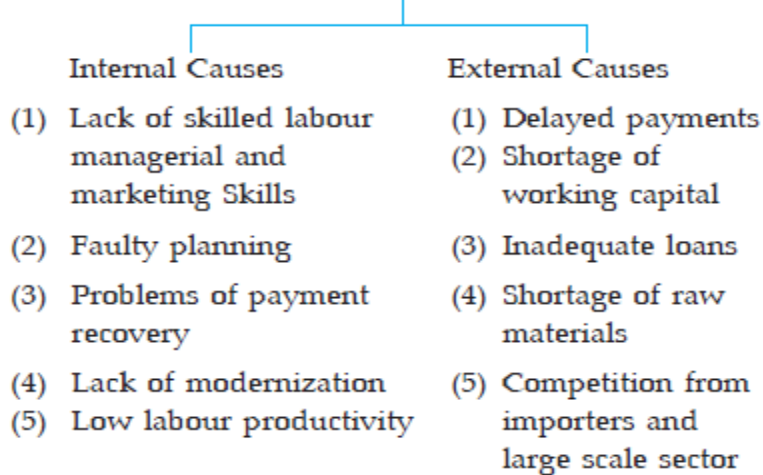
- (i) Lack of advertising
- (ii) Non-branding of the products
- (iii) Poor standard of quality of the product
- (iv) Transportation problems
- (v) Locational difficulties
- (vi) Cut-throat competition from large sectors
- (vii) Complicated marketing procedures.

(6) Problem of sickness:

Industrial units which are unable to sustain themselves financially are called sick units. According to the RBI, a sick unit is that which has incurred a cash loss for one year, and is likely to continue it for the current year, as well as, the following year.

Such units have an imbalance in their financial structure. Sickness is widespread in small business industries like cotton, jute, sugar, textile, small steel & engineering industries. It is a point of worry for both policy makers and entrepreneurs.

Causes of Industrial Sickness



However, rehabilitation of sick units is a costly proposition. It involves rescheduling of capital formation, planning, technological upgradation and provision for fresh working capital.

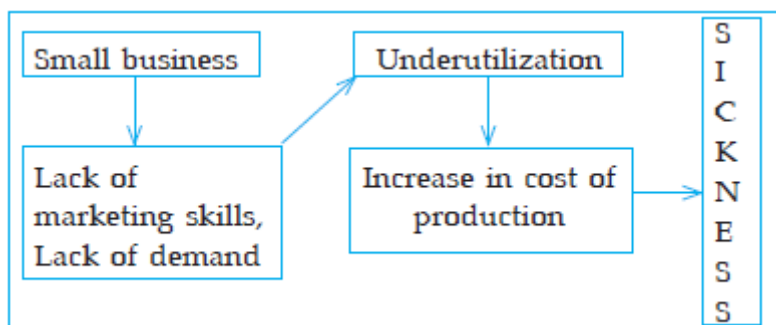
Recently, percentage of sick units in small business (in both registered and unregistered sectors) was analyzed reason wise as follows:

Percentage of Small Business Sick Units (March 2010)

Reason	Registered Sector	Unregistered Sector
Shortage of Capital	48%	47%
Lack of Demand	71.6%	84.1%
Non-availability of Raw Material	15.1%	15.2%
Power Shortage	21.4%	14.8%
Labour Problem	7.4%	5.1%
Marketing Problem	44.5%	41.2%
Equipment Problem	10.6%	12.9%
Management Problem	5.5%	5.1%

(7) Underutilization of capacity:

Many small business units cannot utilize optimum resources and capacity. Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity. It leads to increase in operating costs and wastage of resources. It finally results in sickness and closure.



(8) Problem of maintaining quality of the product:

Small business units often concentrate on cutting cost and keeping prices low. Many times, they do not adhere to the desired standards of quality. They do not have adequate resources to invest in quality research and maintain standard of quality. At the same time, there is lack of expertise to upgrade technology. Low quality is the limiting factor when small business compete in the global market.

(9) Global competition:

In present context of Liberalization, Privatization and Globalization (LPG) policies being followed by several countries across the world, competition is not only from medium and large industries but also from multinational companies which are giants in terms of their size and business volume. It is difficult to withstand the quality standards, technical skills, financial creditworthiness, managerial and marketing capabilities of large industries. There is limited access to markets of developed countries due to stringent requirements of quality certification like ISO 9000, ISO 14000, ISO 26000.

(10) Export related problems:

The small business has contributed in a significant way to the expansion and divergence of India's exports. In spite of several policy measures announced by the Government to encourage exports, small business units still face problems like lack of organized efforts to increase exports and demand fluctuations. They also face difficulties of cross-cultural marketing.

(11) Other Problems:

In addition to the problems discussed above, small business units face a number of other problems like:

- (i) Labour problems which include highly demanding employees, absenteeism, lack of skilled workers and transportation of workers. Strikes, high wage rates in some cases and inefficiency.
- (ii) Unchanging and unresponsive production patterns, and right methods of planning and implementation
- (iii) Burden of local taxes.
- (iv) Products are often not recognized as branded products.
- (v) Personal problems like spending long hours at work and less time with family, and the rewards have not been favourable.
- (vi) Problem of delayed payment by large firms and Government departments.

