



# **CLASS XI BUSINESS STUDIES NOTES**

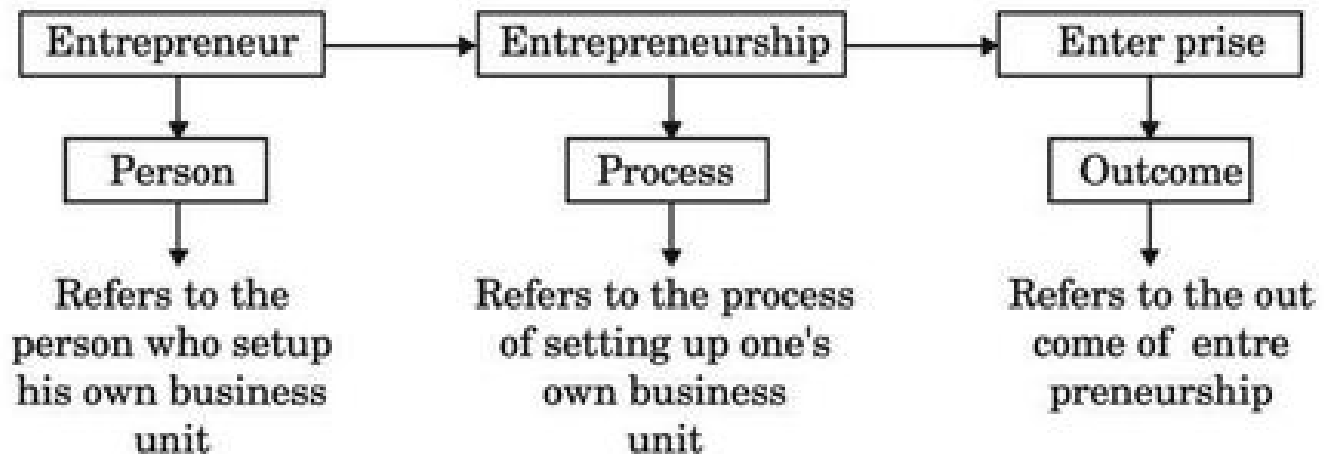
**Small Business and  
Entrepreneurship**

**Key Notes and Important Questions with Answers**

# CHAPTER 8

## SMALL BUSINESS AND ENTERPRISES

### Entrepreneurship Development (ED):



Meaning: Entrepreneurship is an systematic, purposeful and creative activity performed by an entrepreneur to translate business idea into desired monetary results.

- (1) **Systematic Activity** : It is not a spontaneous activity one needs special knowledge to complete this activity in a disciplined manner.
- (2) **Lawful and purposeful activity**: It is related to the establishment of a lawful and purposeful business. It aims at providing value (goods & services) to the buyers, consideration to the investors and profit to the entrepreneur.
- (3) **Innovation**: Under it, new combinations of different modes of production are created like new technique, new products, new raw material & new marketing methods.
- (4) **Organisation of Production**: Under this, new methods of production are adopted.
- (5) **Risk-Taking**: It is surrounded by risk on every side. Hence risk can't be separated from entrepreneurship.

**Need for Entrepreneurship**: The need for entrepreneurship is indicated from the following facts—

- (1) Initiating the process of Development—The establishment of more and more business reflects the development of a country.

(maintained) with the help of entrepreneurship.

- (3) **Providing employment opportunity:** Entrepreneurship not only provides the scope for self-employment but also offers employment to large number of people.
- (4) **Social benefits:** By making optimise utilisation of resources. They save scare resources of society.

**Process of Entrepreneurship Development: Start-up India Scheme:** Start-up India is an action plan to develop an eco-system to promote and nurture entrepreneurship across the country.

**Meaning/Definition of Start-up:** Start-up is a business enterprise in the form of private ltd. Company, partnership, limited liability partnership or sole proprietor, registered in India, which was started less than five years ago and have annual turnover of less than 25 crore.

Any enterprise formed by splitting up or reconstruction of a business already in existence shall not be considered as start-up.

**Various schemes and ways to fund start-up by Government of India:** There are about 67 schemes launched by Govt. of India for giving wings to youth entrepreneurs.

Common Schemes offered by government are :

1. **No inspection :** No inspection would be carried out at start ups for 3 years.
2. **Registration:** Start up get registered in available for first three years only after obtaining a certificate from inter-ministerial board.
3. **Income Tax Exemption:** Income Tax exemption is available for first three years only after obtaining a certificate from inter-ministerial board.
4. **Capital gain Tax exemption:** The start-up can claim capital gain tax exemption for first three year.
5. **Benefit in patent and Intellectual property :** Its patent cost, start-up can claim an 80% rebate.
6. **Funding Schemes for start-up:** Govt. has announced ₹ 10,000 crore fund for new startups and ₹ 500 crore for credit guarantee scheme.

**Lists of 10 funding options for startups to help raise capital/ways to fund start up:**

2. Crow funding: In this method, fund is gradually collected from a large number of people through the medium of internet by giving detailed information of his startup.
3. Angel investment : In this method, the rich people with surplus cash and having interest in development of start up get ready to invest in the business.
4. Venture capital: Under this method, funds are professionally managed in companies that have huge potential.
5. Funding from Incubators and Accelerators: Incubators is the financial assistance provided to the start stage by financial institutions and funding for developing the organisation and funding for developing the organisation after startup is known as acceleration.

Incubators — Walk

Accelerators — Run

6. Winning Contests Fund—Under this method, fund is collected by presenting the best startup plans and winning the contest.
7. Bank-loan—Under this method funds can be raised from the banks like Bank of Boroda, HDFC, ICICI Bank.
8. Non-Banking financial Companies—NBFC's the startups who can't fulfil the conditions of commercial Banks can easily get the financial help from NBFC's.
9. Government offer: To give financial help to the startups, the government has arranged ₹ 10,000 crores in the union Budget.
10. Quick Money: Under this method of startup fund, the arrangement of Fund is made in following manner.
  - (a) Getting payment prior to the sale of product.
  - (b) Sale of properties.
  - (c) Use of credit card.

Like 'APPLE' & 'SAMSUNG' companies, generally got the payment from their customers prior to the supply of goods.

### **Intellectual property Rights (IPR) and Entrepreneurship**

Intellectual property: It refers to the intellectual creativity of a person. It is the legally recognised exclusive rights given to the creator of their creations like invention, art work, musical, literary, symbols, names,

- (a) Industrial Property which includes inventions (Patents), trademarks, industrial designs and geographic indications.
- (b) Copyright, which include literary and artistic works.

IPR refers to the special rights given to the creator for a definite period for the use of his creative work.

IPR is an asset for innovative entrepreneur in the following way:

- (1) Innovative potential got market value.
- (2) Upcoming entrepreneur can make their name and place in the market with IPR.
- (3) Research shows that more than 25% patent are taken by new and upcoming entrepreneurs.
- (4) IPR give the entrepreneur property right as intangible assets.
- (5) IPR give an edge over your competitor and help you to become leader in your field.

#### **IPR include**

- 1. Copy right
  - 2. Patent
  - 3. Trade mark
  - 4. Copy Right
1. **Copy Right:** It is the right given to the creator on his literary and artistic creations. No other person can use the creation without the creator's permission. The facility of copyright is available on books musical composition, novels, painting, computer software, movie etc.
- The duration of copyright is for the whole of their lives and it continues upto sixty years after their death.
2. **Patent:** Patent is a right given to an inventor under which, upto a fixed period, only the inventor can use his invention. Here, invention means creation of some new, useful and non-obvious product or process (method, formula, idea etc.)

#### **Duration of Patents**

- 1. In India, all the patents are recognised for twenty years.
- 2. Period of patents begins from the date of submission of the

3. **Trademark:** A trade mark is like a brand name, it is any word(s) that represents the product to identify and distinguish it from other products in the market place.

Trade mark gives a legal protection that no one else can use this trade mark/similar identity.

Duration fo Trade mark is valid for ten years. After the payment of fixed fees, its renewal can be got done again for the next following 10 years.

### **Example of different types of Trademarks:**

1. Cococola's name and its bottle's shape
2. McDonald's Symbol & Slogan
3. Volkswagon's logo

### **Enterprise Vs Entrepreneurship:**

Enterprise is a business organisation/start-up which provides goods/service, creates employment and contributes to national income. it is the fourth factor of production along with land, labour and capital.

Entrepreneurship is the set of all activities preformed by an entrepreneur to translate a business ideas into desired monetary results.

### **Question-Answers**

1. What is entrepreneurship and why it is needed?
2. Define start-up. Explain various schemes of fered by government of India for start-up.
3. Explain Intellectual property right and what it includes. Explain

## Small Business

A business which operates on a small scale and required less capital. less labour and less machines is called small business. The goods are produces on a small scale: This business is operated and managed by the owner of the business. in India, the village and small Industries sector consists of both traditional Handlooms. Handicrafts, khadi and Village Industries. Modern small Industries - Small scale industries and Powerlooms.

According to MSMED Act, 2006, a small scale enterprise defined as one where the investment in Plant and Machinery is more than 25 lacs but does not exceed Rs. 5 crore.

Several parameters can be used to measure the size of business. These include the number of persons employed in business, Capital invested in business, Volume of output of business and power consumed for business activities. The definition used by the Government of India to describe small Industries is based on the investment in plant and machinery. It can be divided as follows :-

	Type of Industries	Investment Limit Rs.	Features
1.	Small Scale Industries	One Crore	For specific production it is 5 Crore (71 Product)
2.	Ancillary small Industrial Unit	One Crore	50% of output supplied to the permanent Unit.
3.	Export Oriented Units (EOUs)	One Crore	It export more than 50% of its production. It can sell 25% in domestic market.
4.	tiny Industrial Unit	25 Lakhs	Investment Limit in plant and machinery is not more than 25 Lakhs.
5.	Women Enterprises	Any of the above	Owned and managed by woman and have capital not less than 51%.
5.	Micro Business Enterprises	One Lakh	Those whose Investment in plant and Machinery does not exceed Rs.1 Lakh

7.	Village Industries	Investment Worker per head Rs. 50,000/-	Location in Rural Areas Produces any goods without the use of power
8.	Cottage Industries	Not defined by	Normally use family labour Use Simple machine, use small capital.
9.	Micro Business Enterprises (Manufacturing Sector)	25 Lakhs	Enterprises engaged in the manufacture of goods pertaining to any industry.

Q.1 What is the limit of capital in plant and machinery for small scale industry with main objective of export promotion and moderation? (5 crore)

Q.2 State the distinguishing features of Ancillary small industrial unit. [50% of its production must be supplied to parent company]

Q.3 On what basis MSMED Act, 2006 measure the size of the business? [Investment in plant and Machinery].

Q.4 Harish has invested 15 Lakh in plant and Mach to manufacture plastic toys. Ac to MSMED Act, in which category does his enterprise falls.[Micro manufacturing Enterprises]

### **ROLE OF SMALL SCALE INDUSTRIES IN SOCIO-ECONOMIC DEVELOPMENT OF INDIA :-**

- 1. Employment :-** Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country. These enterprises are labour intensive and labour is available in abundant amount in rural areas of India.
- 2. Variety of product :-** Small scale Industries produce an enormous Variety of goods e.g. ready-made garments, stationery, soaps, Leather's goods Plastic and rubber goods.
- 3. Export :-** The share of product from SSI is 45% of total export from India So it earn valuable foreign exchange and solve the problem of balance of payment
- 4. Balance regional development :-** S.S.I. can be set anywhere



5. **Complementary to large scale Industries :-** S.S.I supply various types of components spare parts. tools etc which are required by large scale enterprises.
6. **Low cost of production :-** S.S.I. also enjoy the advantage of low cost of production because they used local resources in their product.
7. **Quick and timely decision :-** Due to the small size of the organization quick and timely decisions can be taken without consulting many people.
8. **Development of entrepreneurship :-** S.S.I. provide opportunity of young men and women to start their own business.

## **ROLE OF SMALL BUSINESS IN RURAL INDIA**

1. **Provides Employment in Rural Areas :-** Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available.
2. **Improve Economic Condition :-** Small business provide multiple source of income to the rural households. S.S.I. improve economic conditions and standard of living of people living in those Areas.
3. **Prevent migration :-** Development of rural and village industries can also prevent migration of the rural population to urban areas in search of employment.
4. **Utilization of Local Resources :-** S.S.I. use local resources e.g. coir. wood and other products, which otherwise remain idle or unutilized or used in very less quantity.
5. **Equitable distribution of national Income :-** Small Scale Industries and cottage Industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country and the income of the country is not just concentrated with some city industrialist.
6. **Balanced Regional development :-** These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but

7. **Opportunity for Artisan** :- S.S.I. provide opportunity to people who are having expertise in different fields but because of lack of opportunities their skills do not come into limelight.

### **Problem of Small Scale Industries:**

1. **Finance** :- Non-availability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Banks hesitate to grant financial help to these units.
2. **Raw Material & Power** :- Small scale units are unable to buy raw materials in bulk due to lack of funds and storage facilities. Shortage of power is another factor which leads to underutilization of plant capacity.
3. **Marketing** :- Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. They depend on intermediaries who exploit them.
4. **Technology** :- Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipments necessary for modernizing product. As a result, their cost of production increases.
5. **Competition** :- Small scale firms face competitions not only from large industries but also from multinational companies due to liberalization Privatization and Globalization.
6. **Other problems** :-
  - Lack of Managerial Efficiency due to non-availability to professionals in rural area.
  - Lack of Demand of Produced Goods.
  - Labour Problems due to lack to skilled or expert labour.
  - Burden of Local Taxes.
  - Poor Product Quality.

### **GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS**

#### **(A). INSTITUTIONAL SUPPORT :-**

1. **National Small Industries Corporation (NSIC)**
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This was set up in 1955 to promote, aid and foster the growth of small scale units in India. Main constraint faced by entrepreneurs is shortage of funds to purchase machinery and equipment. Non availability of finance, deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

A new scheme of "Performance and credit rating" of small business is implemented through NSIC with twin objective.

- a) Sensitizing the small industrial about the need for credit rating.
- b) Encouraging the small business to maintain good financial record.

### **Main functions of NSIC :**

1. It supplies imported machines and raw materials to small industries on easy hire-purchase schemes.
2. It export the products of small units.
3. It provides technology to small scale industries.
4. Helps in up gradation to technology.
5. Provides in up gradation of technology
6. Provides various equipment on lease basis.
7. Undertakes construction of industrial estates.

## **II. District Industries Center (DIC)**

The concept of DIC came during 1977, when govt. of India announced the new Industrial policy on 23rd Dec, 1977. The main objective of DICs is to make available all necessary services at one place. The finance for setting up DICs in a state are contributed equally by particular state Govt. and Central Govt.

### **Functions of District Industries Center**

1. Act as the focal point of industrialization of the district
  2. Identifies projects for setting up of SSI units.
  3. Issues permanent registration certificate to SSI units.
  4. Provides marketing support to SSI units
  5. Act as a link between the entrepreneurs and the lead bank of district
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6. Helps businessman in obtaining licence from Electricity board, water supply board etc.
7. Provided loans, work sheds and raw material to SSI units.
8. Implements government sponsored schemes for educated unemployed.
9. Provided assistance to entrepreneurs to procure machinery and raw material.

- Q.1 What is the name of organization which ensures smooth credit flow to small business through syndication with banks? (NSIC)
- Q.2 Name the scheme launched by NSIC to spread awareness about credit rating ? (Performance and credit rating)

**(b) Other Govt. Incentives to Hilly Backward And Rural Areas**

1. **Power :-** Some states supply power at a concessional rate of 50%.
2. **Tax holidays :-** Exemption from payment of tax for 5 or 10 years is given to industries established in backward areas.
3. **Land and Water :-** Availability of land at concessional rate. Water is supplied on no profit no loss basis.
4. **Octroi :-** Most of the states have abolished octroi.
5. **Protective Measures :-** The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines
6. **Marketing Assistance :-** Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.
7. **Finance :-** Subsidy of 10-15% for building capital asset. Loans are offered at concessional rates with easy instalments of loan repayment.
8. **Sales Tax :-** In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years. No value added Tax (VAT) and other local taxes for a specified period.

**1 MARKS QUESTIONS**

1. Which type of Industry uses family labour and local available

2. A micro small scale industry has investment of Rs. 24 lakhs and engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. what type of small Business will it become and what is the maximum investment limit in such cases?
3. Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51% ?
4. Name any 2 areas where SSLs feel threatened from global enterprises.
5. Name any 2 merits of SSLs in the export trade of India.
6. What is the difference between ancillary small industrial unit and tiny industrial unit ?

### **APPLICATION - ORIENTED AND VALUES BASED QUESTIONS.**

- Q.1 Preet food Industries set up food and beverages processing plant in the rural area of Haryana and opted for labour intensive technique due to easy availability of labour and to provide employment to local people. Board of director decided to invest 50 lakhs to acquire plant & machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.
- (a) Name the Act of Industries which is applicable to the above industry.
  - (b) which category of part (a) will the above industry come?
  - (c) State the investment limit in this category.
- [Hints:-MSMED Act, 2006. Small Scale Industry, Rs. 5 crores. Employment Generation]
- Q.2 Board of Directors of "Bio Pure water Ltd." decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earn marked 15% of its profit for Educational and Health needs of its employees and their family members.
- (a) The above company comes under which category as per MSMED Act 2006.
  - (b) Write any one commercial reason for setting up of unit in the hilly region.

(c) According to you, what are the options available to the company for meeting its long term and short term needs

[Hints :- Small scale Industry, Cheap price of Land and Labour, Equity share Capital and Loans from Bank.

Q.3 Sushant Singh done his B.Tech in electrical engineering. He has no business experience but wants to start a small scale manufacturing unit. He has chosen to manufacture light engineering goods which will be marketed to manufacturers and in replacement markets.

a) Which Govt. agency should he approach for receiving suitable guidance for starting his unit ?

b) What type of facilities will he be able to get from concerned agency.

[ Hint : (a) DIC (b) Role of DIC]

Q.4 The Govt. of India has launched special schemes for developing small scale industries in rural, backward and hilly areas.

Explain any 3 such schemes and mention any 2 values involved in launching these schemes.

[Hint : Any 3 Schemes from other incentives

Values : (a) Concern for people living in un-development areas.

(b) Creation of self-sufficiency.

Q.5 Almost in every district of the country a District Industries center (DIC) has been set up. Mention any four objectives of this centre.

Q.6 "Small Scale Industries contribute to the economic development of the country by producing 40% of the gross industrial value added, yet they face financial crises all the time." Why do small industries face financial problems all the time?