

# FACULTY OF JURIDICAL SCIENCES

# Lecture-22



# Meaning of Small Business

A business which functions on a small scale level involves less capital investment, less number of labor and fewer machines to operate is known as a small business.

Small scale Industries or small businesses are the type of industries that produces goods and services on a small scale. These industries play an important role in the economic development of a country. The owner invests once on machinery, industries, and plants, or take is a lease or hire purchase. These industries do not invest more than one crore. Few examples of small-scale industries are paper, toothpick, pen, bakeries, candles, local chocolate, etc., industries and are mostly settled in an urban area as a separate unit.

## Characteristics of Small Scale Industries

- **Ownership:** They have a single owner. So it is also known as a sole proprietorship.
- **Management:** All the management works are controlled by the owner.
- **Limited Reach:** They have restricted area of operation. So they may be a local shop or an industry located in one area.
- **Labor Intensive:** Their dependency on technology is very little because they are dependent on labors and manpower.
- **Flexibility:** Because they are small, they are open and flexible to sudden changes, unlike large industries.
- **Resources:** They utilize local and immediately available resources. They do better utilization of natural resources and limited wastage.

## Features of Small Business:

It is not correct to say that the days of small industries are gone. Eugene Staley has mentioned five distinct ways in which small industries successfully coexist with large industry.

### **1. Competition:**

Small industry can out-compete large industry in certain circumstances and in selected products. Some of these industries are bricks and tiles, fresh baked goods, condiments and preserved fruits, goods requiring small engineering skill, items requiring artistry and craftsmanship.

## **2. Supplementary:**

Small industry can “**fill the cracks**” between the big volume and standardized outputs of large factory. Staley mentions a Madras case where a small tricycle factory flourished alongside a large cycle factory.

## **3. Components:**

A small industry can produce components for a large industry. This is the most common example of the small manufacturing sector and many of them function under the protection of big industries. Very often they also derive the advantage of a protected market with assured supply of their output to one or more selected large manufactories.

## **4. Initiation:**

Small industry can initiate new products and subsequently grow large with the growth of the product. Staley mentions that many of the automobile factories started this way in USA. In India, the electronics industry looks like taking to this pattern of development.

## **5. Servicing:**

Small industry can install service, and repair the products of large industry. In India these industries are growing in respect of major industries like refrigerators, radio and TV sets, watches, and clocks, cycles and motor cycles and motor vehicles in respect of repair, servicing and maintenance.

It is thus obvious that growth of large scale industries does not necessarily bring about the end of cottage or small scale industries. Electricity has revolutionized large-scale industry; at the same time small units based on electricity can also be cheaply and conveniently started with limited infrastructure.

Besides, many artistic goods, products of craftsmanship, and luxury goods do not lend themselves to standardization of large scale manufacturing and are largely reserved to the cottage, rural and small industrial sectors.

Finally new ventures, so long as they are in an experimental or formative stage are first tried on a small scale and it is only when their success is demonstrated and their profitability and capital base established that they are organized on a large scale.

Small business always plays an important role in the development of any country. As already mentioned, most of the industrial and business activities starts small. With market opportunities and vision of the entrepreneur, it grows into a large industry.

**There are a number of reasons why small businesses are important to our economy:**

1. They are important source of competition and challenge the economic power of large firms.
2. They offer wide range of choice to the consumer. Large businesses are more oriented towards the mass market, but smaller firms can serve specialized needs.
3. They broaden the distribution of economic and political power.
4. In many areas, they bring the development and provide local leaders with strong local roots.
5. They are sources of innovation and creativity.
6. They are providing large scale employment scattered all over the country.
7. They provide the ancillary support to large industries.