Chapter 9: MSME and Business Entrepreneurship

Exercises — Exercises

Q1 Which year the MSMED Act passed?

The Micro, Small and Medium Enterprises Development (MSMED) Act was passed in 2006 and came into force from October 2006. It gave micro, small and medium enterprises a single legal framework and addressed issues of their definition, credit, marketing and technology upgradation.

Q2 What is the micro enterprise?

A micro enterprise is the smallest category of MSME, classified by investment in plant and machinery and by turnover. Its investment in plant and machinery is up to Rs 1 crore and its turnover does not exceed Rs 5 crore. Micro enterprises make up about 99.4 per cent of all MSMEs.

Q3 What is a cottage industry?

Cottage industries are also known as rural or traditional industries. They are small, traditional units, often run from the artisan's home with family labour and local skills. Unlike other small scale industries, they are not defined by any capital investment criteria.

Q4 What is meant by Village and Khadi Industry?

A village industry is any industry located in a rural area that produces goods or renders services, with or without the use of power, and in which the fixed capital investment per head of artisan or worker does not exceed the amount specified by the central government from time to time. Khadi and village industries, together with coir, are an important contributor to the growth of the MSME sector.

Q5 Give any two characteristics of entrepreneurship development.

(i) Systematic activity: entrepreneurship is not a gift or a matter of chance but a step-by-step, purposeful activity. Its required skills and competencies can be learnt and developed through education, training, observation and experience, so entrepreneurs are made, not just born. (ii) Innovation: entrepreneurship involves creating value through new products, new markets, new sources of supply, technological breakthroughs and better organisational forms.

Q6 What is MSME?

MSME stands for Micro, Small and Medium Enterprises. These businesses are classified by investment in plant and machinery and by turnover (micro: up to Rs 1 crore and Rs 5 crore; small: up to Rs 10 crore and Rs 50 crore; medium: up to Rs 50 crore and Rs 250 crore). They are a vital link in industrialisation, producing a wide range of goods and providing employment and exports, using local raw materials and indigenous skills.

Q7 State the meaning of entrepreneurship.

Entrepreneurship is the process of setting up one's own business, as distinct from employment or practising a profession. The person who sets up the business is the entrepreneur, and the business unit created is the enterprise. Besides giving self-employment to the entrepreneur, it creates and expands opportunities for employment and professions, which makes it crucial for a nation's overall economic development.

Q8 MSME and Entrepreneurship are connected. Do you agree? Give two reasons.

Yes, the two are closely connected. (i) MSMEs provide ample opportunity for entrepreneurship: latent skills and talents can be turned into business ideas with little capital and almost no formalities, so many entrepreneurs begin as micro or small enterprises. (ii) Entrepreneurship feeds MSME growth: entrepreneurs combine resources and innovate, creating enterprises that are mostly small, such as Romi Bags of Manipur, which started as a tiny venture and won a national award.

Q9 State the role of MSME in development of a country.

MSMEs contribute about 29.7 per cent of GDP and 49.66 per cent of exports, and are the second largest employer after agriculture. They are labour intensive, supply a huge variety of products, and can be set up anywhere using local resources, which supports balanced regional development. They prevent rural-urban migration, reduce income inequality, offer scope for entrepreneurship, enjoy low production costs and take quick decisions.

Q10 What are the different parameters used to measure the size of MSME?

Several parameters can measure the size of a business unit: the number of persons employed, capital invested in the business, and turnover of the business. The Government of India defines MSMEs on the basis of investment in plant and machinery and turnover. This measure suits India's socio-economic environment, where capital is scarce and labour is abundant.

Q11 State the meaning of Village and Khadi industries.

A village industry is any industry in a rural area that produces goods or renders services, with or without power, where the fixed capital investment per artisan or worker is within the limit specified by the central government from time to time. Khadi and village industries, along with coir, handicrafts, handlooms, sericulture and powerlooms, form subgroups of the MSME sector and contribute to its growth and to rural employment.

Q12 State any three major problems faced by MSMEs.

(i) Finance: MSMEs start with small capital, lack creditworthiness, depend on moneylenders, face shortage of working capital and cannot give the collateral banks demand. (ii) Raw materials: low bargaining power, inability to buy in bulk or store materials, and scarcity of inputs force them to compromise on quality or pay high prices. (iii) Marketing: weak marketing skills make them depend on middlemen who pay low prices and delay payments.

Q13 How do small scale industries contribute to the socio-economic development of India? Discuss.

Small industries contribute to India's socio-economic development in several ways. (i) Balanced regional development: they account for about 95 per cent of industrial units and can be set up anywhere with local resources. (ii) Employment: they are the second largest employer after agriculture and create more jobs per unit of capital than large industries. (iii) Variety of products: from consumer goods and garments to electronics, pharmaceuticals and handicrafts with export value. (iv) Entrepreneurship: they turn skills into businesses with little capital and few formalities. (v) Low cost of production, because local resources and low overheads reduce costs. (vi) Quick decisions: small size lets them seize opportunities in time. They also check rural-urban migration and reduce income inequalities.

Q14 Describe the role of small business in rural India.

Small business is a powerful instrument for rural industrialisation, aimed at accelerated industrial growth and additional productive employment in rural and backward areas. Small units provide multiple sources of income through a wide range of non-agricultural activities, and create employment for traditional artisans and weaker sections of society. Their development prevents migration of rural people to cities in search of work, reduces income inequalities and promotes dispersed development of industries. Village and cottage industries, handlooms and handicrafts use local raw materials and indigenous skills, and many have export value. Being low in capital need and formalities, they also give rural people scope to start their own enterprises.

Q15 Discuss the problems faced by small scale industries.

MSMEs are at a disadvantage compared with large industries, and their potential is often not fully realised because of these problems. (i) Finance: small capital base, low creditworthiness, dependence on moneylenders, delayed payments, and lack of collateral for bank loans. (ii) Raw materials: low bargaining power, no storage for bulk buying, and scarcity of metals and chemicals. (iii) Managerial skills: a single promoter may lack all managerial skills and cannot afford professional managers. (iv) Marketing: dependence on middlemen; direct marketing is infeasible without infrastructure. (v) Quality: little capacity to invest in quality research or upgrade technology. (vi) Capacity utilisation: operating below capacity raises costs and leads to sickness and closure. (vii) Global competition from large firms and multinationals. Remote location, poor infrastructure and traditional technology add to these difficulties.

Q16 What measures has the government taken to solve the problem of finance and marketing in the small scale sector?

The government supports MSMEs through several measures. It states that the government has encouraged the sector in both the pre-reform and post-reform periods to achieve self-reliance and rural industrialisation. The main step it describes is the MSMED Act, 2006, which gives micro, small and medium enterprises a single legal framework and addresses their definition, credit, marketing and technology upgradation. Medium and service-related enterprises also come under it. The Startup India Scheme supports innovation and startups, including under-represented groups, and IPR protection helps new ventures monetise their ideas and compete.

Q17 'Innovation is integral to MSME'. Discuss giving reasons to your answer.

Innovation means introducing new products, discovering new markets and sources of supply, achieving technological breakthroughs and adopting better organisational forms, preferably with least harm to the environment. It is integral to MSMEs for these reasons. (i) MSMEs face competition from large firms and multinationals, so they must keep innovating to survive; a business that does not innovate stagnates and withers away. (ii) Innovation can cut costs or raise revenue, strengthening their competitive edge. (iii) MSMEs are complementary to large industries and global companies seek them for innovative capabilities in niche, low-cost manufacturing. (iv) Intellectual property rights such as patents and trademarks reward innovation and protect it. Examples are Romi Bags' unique purse design and MSME tool rooms supplying components for Mangalyaan and Chandrayaan.

Q18 'Creativity and Innovation is the key to MSME'. Justify the statement.

Entrepreneurship is creative because it creates value: by combining land, labour, capital and technology, entrepreneurs produce goods and services that meet society's needs and generate income and wealth. Creativity gives MSMEs their ideas, and innovation turns ideas into products, processes and markets. This is the key to MSMEs because they lack the size of large firms and must compete on novelty, quality and cost. The story of Romi Bags shows this: a purse made from scrap fabric led to a venture and a national award. Protecting creations through patents, trademarks, copyrights, designs and GI tags helps MSMEs earn from their ideas and remain competitive, and start-ups depend on innovation to grow.