

## **SMALL BUSINESS: CHARACTERISTICS, TYPES, ROLES AND PLACE OF POLICY IN MODERN LIFE**

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***Annotation:** This article describes the characteristics of a small business and the factors it encounters. Small business is important in our economy. So most of this written article is just what you need.*

***Keys words:** Business, competition, supplementary, manufacturing, trading, services, employment, equality*

## **МАЛЫЙ БИЗНЕС: ХАРАКТЕРИСТИКИ, ВИДЫ, РОЛИ И МЕСТО ПОЛИТИКИ В СОВРЕМЕННОЙ ЖИЗНИ**

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***Аннотация:** В этой статье описываются характеристики малого бизнеса и факторы, с которыми он сталкивается. Малый бизнес важен в нашей экономике. Так что большая часть этой статьи - именно то, что вам нужно.*

***Ключевые слова:** бизнес, конкуренция, дополнительные, производство, торговля, услуги, занятость, равенство.*

Development of small business and private entrepreneurship in Uzbekistan is on the threshold of a new stage. Small business and entrepreneurship is an integral and essential sector of the market economy, forming the competitive environment. The features of this sector with a sufficient level of its development contribute to economic, social and political stability of society. Small business and entrepreneurship are essential elements of a market economy to ensure a harmonious development of the regions, largely determining the rate of economic

growth, the structure and quality of the gross domestic product. One of the main advantages of a small business is that it inevitably leads to the emergence of competition in the domestic market, which in turn has a positive effect on the economic condition of the country. Small business and entrepreneurship is an important factor in the growth of national well-being, as he is the main source of income is not only a significant part of the people involved in his field, but also their families. Besides all this, small business and entrepreneurship allows a person to combine into one work and personal life, to realize itself, to demonstrate their abilities and talents

**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 standardised 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.

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 revolutionised

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 standardisation 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 organised 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 specialised 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.

**Types of Small Business:** Small business includes a variety of companies.

**They may operate in any of the following areas:**

- (a) Manufacturing,
- (b) Trading,
- (c) Services

(d) Others.

### **Roles of Small Business:**

In selecting industries for development in a new country attention should be given to those industries which create conditions favourable for the growth of other industries since this method will lead to the simultaneous development of many industries. Rosenstein Rodan advocates this line of development. India followed this path by constructing multipurpose river-valley projects and by developing small scale industries.

Small industries are capital-light, skill-light, labour-intensive and dispersed. They are of quick investment type, and by carrying the job to the worker they can overcome the difficulties of geographical immobility. In the conditions prevailing in many underdeveloped countries the development of small industry may be the most economic form of industrialisation; it may be more economic than either large scale organised industry or cottage industry.

Moreover small industry represents much less of a break with previously established modes of living and therefore represents less of strain than industrialisation in the form of large units.

Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country. The Industrial Policy Resolution puts forth four main roles of small industries in the Indian economy.

**1. Employment Argument:** The most important economic task before the country is the solution of unemployment problem. "wage employment" is limited as it depends on industrial growth. But there is a large scope for the creation of "self-employment" and here the small scale industries can play a significant role.

These aspects of the economy have prompted the policy makers to turn to small industry for absorption of the additions to the labour force primarily because these are labour-intensive in character. The small businesses are labour-intensive and create more employment per unit of capital employed.

**2. Equality Argument:** Large-scale industries generally lead to inequalities of income and concentration of economic power. On the other hand, an SSI leads to a more equitable distribution of produce of industry. In other words, the income generated in a large number of small enterprises is dispersed more widely in a community than income generated in a few large enterprises.

The income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution.

However, it is a fact that there is a common tendency in all countries wages to be lower in small factories than in large factories; but it is also equally true that in underdeveloped economy workers have a choice not between a high paid job and a low paid job but between a low paid job and no job at all.

So the low paid job is accepted by the force of circumstances. In the absence of small enterprises, the workers have to lose even small wage which they hope to get. A policy of supporting cottage and small industries is really a policy of social insurance for a group which would otherwise be threatened by unemployment.

**3. Latent Resources Argument:** Small scale industries are capable of mopping up latent and unutilized resources. This argument justifies the cause of SSIs on three grounds: First, it presupposes that there are a large number of small and potential entrepreneurs who are capable of running industrial units efficiently if proper help is extended to them.

Second, there are a large number of potential enterprises whose full capacities have not been used so far. Third, SSIs will be helpful in putting idle savings in productive use.

**4. Decentralisation Argument:** Decentralisation of industrial activity has also been advanced as another reason for promoting SSIs.

There are two aspects of this argument; first, there is the need to prevent congestion in large cities through prevention of growth of industries there; second, this negative measure has to be reinforced by promoting industrial growth in semi-

urban and rural areas so that the local people can stay on their areas without emigrating to the nearby cities.

Large industries are mostly concentrated in metropolitan cities. The smaller towns and the countryside in order to benefit from modern industrialisation must encourage small enterprises. Industrialisation of the country can become complete only if it penetrated into the remote corners of the country. Small industries by carrying the job to the workers overcome the difficulties of territorial immobility.

An important reason for developing small industries lies in the prevention of a lopsided industrial growth. A pyramid like structure of industrial development with a few large scale industries at the top and a mass of small enterprises at the base would obviously make the industrial economy ill balanced.

There should be layers of industrial enterprises in between the largest and the smallest categories. An integrated development of large scale and small scale industries complementing each other is the most important aspect of economic planning which should not be lost sight of.

The larger units should be a source of most of the critical raw materials which the smaller units need for processing them into finished goods.

The smaller units in their turn should be acting as auxiliaries engaged in the manufacture of components, parts and accessories required by the bigger units which should have sub contracted with the former. The economic and technical possibility of such complementary relationship should be explored and realised.

**Small Business under Five Year Plans:** Our Five-year Plans gave an important place to the development of small business units in order to provide greater employment opportunities, to mobilise local talents and skills, to exploit local resources and to bring about decentralisation of industries as well as equitable distribution of income.

**The features of the new small industry policy are as follows:**

(i) To allow equity participation by other industrial undertakings in the SSI, not exceeding 24% of the total shareholding. This is being done to provide small units

access to the capital market and to encourage modernisation, technical upgradation, ancillarisation and sub-contracting.

(ii) To widen the scope of the National Equity Fund, to enlarge the Single Window Scheme and to associate commercial banks with provision of composite loans.

(iii) To introduce a limited partnership Act. This would limit the financial liability of the new entrepreneurs to the capital invested.

(iv) To introduce factoring services. This would help solve the problems of delayed payments to smaller sector.

(v) Market promotion of small sector products to be undertaken by cooperatives, public sector institutions and other professional agencies by adopting a consortium approach.

(vi) To accord priority to small and tiny sector in allocation of indigenous raw materials.

(vii) To encourage complementarily in production programmes of large, medium and small sectors.

(viii) To encourage and support industry associations to establish quality counseling and common testing facilities.

(ix) To facilitate location of industries in rural and backward areas.

(x) To improve the quality and marketability of the products of the handloom and handicrafts sector.

(xi) The Small Industry Development Organisation to be recognised as the nodal agency to support SSI in export promotion.

**Evaluation:** The policy shows a reorientation on crucial issues. . Has done well to emphasize a shift from cheap finance to adequate and timely finance and from general promotional activity to specific target-oriented schemes. The specific attention devoted to the tiny sector is welcome because most of the benefits currently enjoyed by the small scale units go to the bigger and more modern units.

It is too early to pass any final judgment on the merits of this policy. The most important change for the modern small scale sector is the provision of additional

finance by permitting limited liability for new non-active partners and by permitting them up-to 24% of equity investment by other industrial undertakings. This could encourage indirect ownership of small units by larger corporate units.

This already exists to a substantial degree as companies trying to cut cost of production also defeat the reservation policy with regard to small units. In-fact, the new policy legitimizes this kind of activity and is therefore questionable. There is a great deal of merit encouraging ancillarisation as it promotes the greater use of labour-intensive techniques of production and also broad bases entrepreneurship.

The encouraging feature of the new policy is that it recognises the fact that small units require timely credit and financial arrangements rather than cheap credit. The point is to ensure that units once set up are allowed to function smoothly by the timely provision of additional credit.

But it is not clear how this will be ensured. The setting up of a special monitoring agency is of little help unless it has the power to force commercial banks to lend the additional credit required.

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