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DETERMINANTS OF CAPITAL REQUIREMENTS OF MICRO AND SMALL ENTERPRISES: A STUDY IN BARAK VALLEY, ASSAM

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ABSTRACT

Micro and Small Enterprises (MSEs) play important role for the development of our economy. MSEs not only generate employment but also utilize optimum resources, increase total production and exports and help in balanced regional development of the country. Finance is the life blood of an organisation. Present study deals with the factors determining fixed capital and working capital requirements of micro and small enterprises in the Barak Valley of Assam. The study found that strengths of the factors determining fixed capital and working capital requirements of the enterprises in Barak Valley are not same. The factors do not have equal impact on fixed capital and working requirements of the enterprises in the Valley. All the factors are found to have comparatively lesser impact on fixed capital requirements of micro enterprise sector than that of small scale sector. But most of the factors are found to have comparatively lesser impact on working requirements of micro enterprise sector than that of small scale sector.

KEYWORDS: *Factors, Fixed Capital, Working Capital, Micro Enterprises and Small Enterprises.*

INTRODUCTION

In the present world, finance is defined as the prohibition of provision of money for future requirement. Every enterprise whether micro, small or medium needs finance to carry on its operations and to achieve its goals and so finance is rightly said to be the life blood of an enterprise. Without adequate finance, no enterprise can fulfill its objectives and no growth and expansion of enterprise can take place (Gupta and Sharma, 2013). Finance has been called "The Science of Money" (Basu, 1939). The financial requirements will be large if size of the enterprise is large and vice versa. The financial requirements of an enterprise can be broadly classified in the form of fixed and working capital. Fixed capital is required to finance the cost of acquisition of both permanent assets and intangible assets. Working capital is required to finance short term or current assets such

as cash, marketable securities, debtors and inventories (Gupta and Gupta, 2011).

The present study has been made by taking Barak Valley of Assam as a base. On the industrial scene, the Barak Valley is late entrant. Most of the enterprises of the valley are micro and small enterprises and least of them are medium and large enterprises. Therefore, the thrust of development has been more in the direction of micro and small enterprises. Despite a lapse of more than a decade it is really unfortunate that no study has been undertaken by any agency or any researcher on the determinants of capital requirements of micro and small enterprises in the Valley. The present study has endeavored in its modest way to examine the position in detail.

REVIEW OF LITERATURE

Dhar (1958) in his study found the sources of external finance of the small scale industries. He found that the relatives, friends and traders are the

important sources of external finance of these industries.

Mathur (1979) tried to explore the reasons behind sluggish growth of small scale sector. The study pointed out that inadequate supply of fixed and working capital was the greatest bottleneck in the growth of SSI sector.

Bhattacharjee (1987) observed shortage of institutional credit (Finance). It was found that these small scale industries in general had to remain content with low capital base, depends more on non - institutional agencies like money lenders, friend and relatives and work under stringent credit condition.

Beck, Kunt and Maksimovic (2002) studied a firm-level survey database covering 48 countries. The study indicates that legal and financial institutions affect different types of external finance in different ways and firm size is an important determinant of accessing different types of external finance.

Dabo (2006) deals with the financing of the firms at start-up and post start-up. The study revealed that 28.3% of the respondents used only personal savings and finances to commence their business ventures and more than 71% of the respondents had used a mix of other sources of finance at start-up in some cases together with the personal savings.

Bagchi (2008) assessed the financial requirements of small and medium enterprises. Small and medium enterprises need finance towards cost of fixed assets like land and building, machinery, equipment, including computers by way of loan to be repaid over a period of time generally three to five years.

Ciara n, Bhaird and Brian (2010) indicate that use of long-term debt financing is positively related with the size of the firm and negatively related with firm age. They also indicate that firms increasingly employ retained profits for investment projects as debt is retired over time.

William , Gartner, Casey, Frid , John and Alexander (2012) found that 83.8 % nascent entrepreneurs contributed personal funds to their start-up effort and about one-third i.e., 31.8 % of respondents used external sources.

Beena (2012) observed that the share of internal financing has increased sharply during 2001-2005 and it accounted for 58 % but it has declined during 2006 -2009 to the level of 38 % which is still higher than the level of 26 % during 1991-94.

Christian, Dietmar, Andre and Gygax (2013) reveal that 34 % of family firms intend to use debt financing for succession expenditures. They

suggest that to complement the work, future research should continue to take a multi-dimensional perspective on succession and incorporate personal relationship issues into the analysis of succession financing.

The survey of literatures reveals that several studies relating to micro and small enterprises have been undertaken concerning their capital requirements and sources of finance in different parts of the country as well as foreign countries. However, in Barak Valley of Assam no research work has been undertaken in respect of capital requirements of micro and small enterprises. This study therefore, is a pioneering attempt to make the explanation of the factors determining capital requirements of micro and small enterprises in the Barak Valley of Assam.

OBJECTIVES OF THE STUDY

The study has been undertaken to study the factors capable of influencing capital requirements of micro and small enterprises in Barak Valley, Assam. With this aspect the two broad objectives of the study are:

1. To study the factors capable of influencing fixed capital requirements of micro and small enterprises in Barak Valley, Assam.
2. To study the factors capable of influencing working capital requirements of micro and small enterprises in Barak Valley, Assam.

RESEARCH HYPOTHESES

The present study deals with the following two null research hypotheses:

1. The opinion of the owners of micro and small enterprises does not significantly vary about the importance of select factors capable of determining fixed capital requirements of the enterprises.
2. The opinion of the owners of micro and small enterprises does not significantly vary about the importance of select factors capable of determining working capital requirements of the enterprises.

RESEARCH METHODOLOGY

The study is basically based on primary data. To test the above hypotheses, the researcher collected the data from primary sources. In order to collect the primary data, the names and addresses of the sample entrepreneurs were obtained from District Industries Commerce Centres of the three districts viz., Cachar, Karimganj and Hailakandi. The sampling design of the study is "stratified sampling design". Population has been identified particularly for micro and small enterprises on consultation with District Industries and Commerce Centre (DICC) officials and permanent registers of DICCs of the three districts viz., Cachar, Karimganj and Hailakandi district. Total number of registered micro and enterprises which is the population of the study is 3161. Sample size of the

study is 246 which is calculated through sample size calculator macorr with 95 percent confidence

level and 6 percent sampling error.

Table-1 Scale Wise Sample MSEs in Barak Valley

Districts	Micro Enterprises	Small Enterprises	Total
Cachar	120 (59.70)	25 (55.56)	145 (58.94)
Karimganj	47 (23.38)	13 (28.89)	60 (24.39)
Hailakandi	34 (16.92)	7 (15.55)	41 (16.67)
Barak Valley	201 (100)	45 (100)	246 (100)

Source: Field Survey

Of the 246 sample enterprises, 145, 60 and 41 enterprises have been selected from Cachar district, Karimganj district and Hailakandi district respectively through ‘proportionate stratification method’.

The primary data has been collected by field survey of the existing micro and small enterprises of Barak valley by personal interview method. Capital requirements of micro and small enterprises in Barak Valley have been assessed on the basis of the factors determining fixed and working capital requirements of these enterprises and for that five points likert scale has been used and the likert items are extremely important, largely important, moderately important, slightly important and not important. The value has been assigned to the likert items as extremely important=5, largely important =4 , moderately important=3 , slightly important=2 and not important=1. The respondents responded the likert items of the factors on the basis of the past and present situation of the enterprises. They also responded on the basis of their own experience of the enterprise. They ranked the factors on the basis of the capital requirements of the enterprises. Total score of each factor has been calculated by multiplying the frequency of each factor with their value and by adding the total value of each factor. Statistical technique like mean has been used. To test the hypotheses of the study independent two sample test has been used. For these calculations excel and SPSS software have been used.

SCOPE OF THE STUDY

The study area is the entire three districts of Barak Valley viz., Cachar, Karimganj and Hailakandi of Assam. The enterprises which are registered with DICC of the three districts as on 31-3-2012 have been selected for the population size. Only the registered enterprises which are functioning have been studied in the present study. The enterprises which have at least one year of experience have been studied.

LIMITATIONS OF THE STUDY

In the present study unregistered micro and small enterprises are not studied. The registered micro and small enterprises which are not functioning are not studied. These are left for further research.

FACTORS INFLUENCING FIXED CAPITAL REQUIREMENTS OF MSEs DESCRIPTIVE DATA ANALYSIS

In the present study fixed capital requirements of the enterprises have been assessed on the basis of factors determining fixed capital requirements of the enterprises. All the factors that influence the requirements of fixed capital are not assessed in the present study. On the basis of pilot survey eight factors have been identified for fixed capital requirements. These factors that affect the requirements of fixed capital of the enterprises in Barak Valley are nature of business, size of the business, choice of techniques, method of acquiring fixed assets, growth prospects, types of product, diversification and technology up gradation.

Table-2 delineates the weightage of importance of the factors affecting fixed capital requirements of the enterprises on the basis of the field survey. It also shows the factor –wise distribution of mean score value of the weightage on the basis of which ranks are provided to the factors.

On the basis of the value of mean score analysis as reflected in table-2, it is observed that most of the important determinants of fixed capital requirements of the enterprises is the nature of business showing 4.07 mean score value which is the largest among all other factors in the study. Contrary to this, product diversification of the enterprises is found to be the least important determinant of fixed capital requirement showing mean score value of 2.54 only which secured 8th rank among the factors. The reason that the nature of business works to be the most influential factor in the requirements of fixed asset by the enterprises and expansion. It is observed that the manufacturing enterprises requires larger amount of land, building, machineries etc., compared to service sector due to which it needs larger amount of fixed capital. Besides, service sector though needs large investment in current assets like inventories, receivables and cash, requires less investment in fixed assets and hence they require smaller amount of fixed capital.

Table-2 Factors determining fixed capital requirements of the enterprises

Factors	Level of Importance					Total Score	Mean Score	Rank
	EI (5)	LI (4)	MI (3)	SI (2)	NI (1)			
Nature of Business	105	65	65	10	1	1001	4.07	1 st
Size of the Business	15	62	87	40	42	706	2.87	6 th
Choice of Technique	93	67	70	12	4	971	3.95	2 nd
Method of acquiring Fixed Assets	37	73	60	50	26	783	3.18	4 th
Growth Prospect	42	63	60	53	28	776	3.15	5 th
Types of Product	13	43	115	37	38	694	2.82	7 th
Diversification	20	45	60	45	76	626	2.54	8 th
Technology Up gradation	45	57	84	30	30	795	3.23	3 rd

Source: Field Survey

It is due to these reasons nature of business works as the most crucial factor in determining fixed capital requirements of the enterprises in the valley. As against this product diversification works to be the least important factor in determining fixed capital requirements because this factor requires less investment in diversifying the business. It is found that enterprises do not want to diversify their products and those which diversified their business from one product line to another line mostly based on their existing fixed assets with little extension and renovation. Therefore, it does not affect much on the requirement of fixed capital by the enterprises which are quite negligible.

In order to assess comparative variations in the impact of the factors determining fixed capital requirements, the enterprises under study have been categorized into Micro and Small enterprises according to the MSMED Act, 2006. The mean score value of the weightage of importance given by the respondents for each identified factors have been calculated separately both for micro and small enterprises. Table-3 shows the scale wise distribution of mean score

values of the factors determining fixed capital requirements of the enterprises.

It is revealed that mean score values of all the factors right from the nature of business to the technology up gradation are higher in small enterprises than that of micro enterprises. The results imply that all the factors have much more influence on the financial requirements of small enterprises than micro enterprises. However, some factors have wide differences in their mean score values between micro and small scale enterprises while some other have minor differences. Interestingly, it is found that nature of business, which was the most important determinant of financial requirements in aggregate, still works as the most influential factor in determining financial requirements both in cases of micro and small scale enterprises. The mean score values of the nature of business have been found to be 3.96 and 4.58 for micro enterprises and small enterprises respectively. Thus, as per nature of business is concerned, it can be said that requirements of fixed capital of small enterprises is larger than that of micro enterprises in Barak Valley.

Table-3 Factors determining fixed capital requirements of micro enterprises and small enterprises

Factors	Micro Enterprises (201)		Small Enterprises (45)		Independent two sample test	p-value	Decision
	Total score	Mean score	Total score	Mean score			
Nature of Business	796	3.96	206	4.58	-4.133	.000	Rejected
Size of the Business	557	2.77	149	3.31	-2.881	.004	Rejected
Choice of Technique	774	3.85	197	4.38	-3.249	.001	Rejected
Method of acquiring Fixed Assets	623	3.10	159	3.53	-2.141	.033	Rejected
Growth Prospect	611	3.04	164	3.64	-2.926	.004	Rejected
Types of Product	543	2.70	152	3.38	-4.009	.000	Rejected
Diversification	498	2.48	128	2.84	-1.699	.091	Accepted
Technology Up gradation	627	3.12	168	3.73	-3.065	.002	Rejected

Source: Field Survey

It is also observed that small enterprises require larger amount of land, building etc., compared to micro enterprises due to which it needs large amount of fixed capital. The same finding is also observed in case of least important factor which was product diversification while determining fixed capital requirements of the

enterprises in aggregate. Product diversification once again found to be the least influential factor while determining fixed capital requirements of both micro and small enterprises, showing mean score values of 2.48 and 2.84 respectively, which are lowest among the all other factors in both the sectors. Mean score values of product

diversification of small enterprises are larger than that of micro enterprises because small enterprises have the more wish to adopt diversification than the micro enterprises and so they require more fixed capital than micro enterprises in Barak Valley.

STATISTICAL DATA ANALYSIS

In order to assess whether there is any difference in the opinion of the owners of micro and small enterprises regarding the degree of importance of the factors capable of determining fixed capital requirements of the enterprises in the valley, Independent two sample test has been used. Respondents of the two groups have been used as independent variable and factors determining fixed capital requirements of both micro and small scale enterprises have been used as dependent variable.

From the independent two sample t test it is found that except the factor diversification there is significant difference between micro and small enterprises regarding the degree of importance of the factors capable of determining fixed capital requirements of the enterprises in the valley.

FACTORS INFLUENCING WORKING CAPITAL REQUIREMENTS MSEs DESCRIPTIVE DATA ANALYSIS

Table-4 Factors determining working capital requirements of the enterprises

Factors	Level of Importance					Total Score	Mean Score	Rank
	EI (5)	LI (4)	MI (3)	SI (2)	NI (1)			
Nature of Business	55	49	82	48	12	824	3.35	4 TH
Size of the Business	15	53	45	60	73	615	2.50	11 th
Seasonal Variations	44	36	63	35	68	691	2.81	9 th
Manufacturing Process	64	67	46	41	28	836	3.40	3 RD
Working Capital Cycle	91	39	50	35	31	861	3.50	2 ND
Rate of Stock Turnover	46	54	61	39	46	753	3.06	7 TH
Credit Policy	17	30	108	62	29	681	2.77	10 TH
Business Cycles	9	87	87	34	29	750	3.05	8 TH
Rate of Growth	16	76	90	50	14	768	3.12	6 TH
Earning Capacity	27	66	103	43	7	802	3.26	5 TH
Credit Availability	45	78	59	46	18	824	3.35	4 TH
Competition Level	76	68	45	29	28	873	3.55	1 st

Source: Field Survey

On the basis of the value of mean score analysis as reflected in table-4, it is observed that most of the important determinants of working capital requirements of the enterprises is the competition level showing 3.55 mean score value which is the largest among all other factors in the study. Contrary to this, size of the business enterprises is found to be the least important determinant of working capital requirement showing mean score value of 2.50 only which secured 11th rank among the factors. The reason that the competition level works to be the most influential factor in the requirements of current asset by the enterprises and expansion. Manufacturing enterprises required large stock of raw materials to regularly sell the products to the consumers and since maximum enterprises in the study are manufacturing

In the present study working capital requirements of the enterprises have been assessed on the basis of factors determining working capital requirements of the enterprises. All the factors that influence the requirements of working capital are not assessed in the present study. The researcher has made the pilot survey for identifying factors that actually influenced the requirements of working capital of the enterprises in Barak valley. On the basis of pilot survey twelve factors have been identified for working capital requirements. These factors that affect the requirements of working capital of the enterprises in Barak Valley are- nature of business, size of business, seasonal variations, manufacturing process, working capital cycles, rate of stock turnover, credit policy, business cycles, rate of growth of the business, earning capacity, credit availability and competition level.

Table-4 delineates the weightage of importance of the factors affecting working capital requirements of the enterprises on the basis of the field survey. It also shows the factor –wise distribution of mean score value of the weightage on the basis of which ranks are provided to the factors.

enterprises, so these enterprises required large amount of stock of raw materials. Again it is observed that both manufacturing and service enterprises in Barak Valley faced stiff competition in selling their products to the customers. So they required large amount of stock of raw materials and working capital. It is due to these reasons competition level works as the most crucial factor in determining working capital requirements of the enterprises in the valley. As against this size of the business works to be the least important factor in determining working capital requirements because size of business of the enterprises of Barak Valley is generally small. Like fixed capital requirements of the enterprises it also proves that working capital requirements is not an increasing function of the size of business.

Table-5 Factors determining Working capital requirements of micro enterprises and small enterprises

Factors	Micro Enterprises (201)		Small Enterprises (45)		Independent two sample test	P-value	Decision
	Total Score	Mean score	Total Score	Mean score			
Nature of Business	681	3.39	144	3.20	.976	.330	Accepted
Size of the Business	500	2.49	115	2.56	-.321	.749	Accepted
Seasonal Variations	559	2.78	132	2.93	-.639	.523	Accepted
Manufacturing Process	645	3.21	191	4.24	-4.919	.000	Rejected
Working Capital Cycle	673	3.35	188	4.18	-3.585	.000	Rejected
Rate of Stock Turnover	595	2.96	158	3.51	-2.463	.014	Rejected
Credit Policy	531	2.64	152	3.38	-4.502	.000	Rejected
Business Cycles	591	2.94	161	3.58	-3.795	.000	Rejected
Rate of Growth	607	3.02	160	3.56	-3.300	.001	Rejected
Earning Capacity	639	3.18	161	3.58	-2.496	.013	Rejected
Credit Availability	681	3.39	142	3.16	1.213	.226	Accepted
Competition Level	697	3.47	175	3.89	-1.896	.059	Accepted

Source: Field Survey

The mean score value of the weightage of importance given by the respondents for each identified factors have been calculated separately both for micro and small enterprises. Table-5 shows the scale wise distribution of mean score values of the factors determining working capital requirements of the enterprises.

It is revealed that mean score values of all the factors except the factors nature of business and credit availability are higher in small enterprises than that of micro enterprises. The results imply that the size of the business, seasonal variations, manufacturing process, working capital cycle, rate of stock turnover, credit policy, business cycles, rate of growth, earning capacity and credit availability have much more influence on the financial requirements of small enterprises than micro enterprises. But the factors nature of business and credit availability has much more influence on the financial requirements of micro enterprises than small enterprises. However, some factors have wide differences in their mean score values between micro and small enterprises while some other have minor differences.

The most important factor determining working capital requirements of micro enterprises is competition level and that of small enterprises is manufacturing process and least influential factor determining working capital requirements of both micro and small enterprises is size of the business. The mean score value of competition level is 3.47 for micro enterprises which is smaller than the small enterprises i.e. 3.89. Data reveals that in order to face competition small enterprises required large stock of raw materials compared to micro enterprises to regularly produce and sell the products to the consumers and hence small enterprises required large amount of working capital than micro enterprises. In other words it can be said that competition level of small enterprises is higher than that of micro enterprises and so small enterprises required large amount of working

capital than micro enterprises. Again the mean score value of manufacturing process of small enterprises (4.24) is also much higher than that of micro enterprises (3.21). Data delineates that the period of manufacturing process of small enterprises of the Valley is longer than the micro enterprises. Hence small enterprises required large amount of working capital compared to micro enterprises. The study also finds that the size of business have least influenced on the requirements of working capital of both micro and small enterprises in Barak Valley. However, the mean score value of the size of the business is higher in case of small enterprises (2.56) than micro enterprises (2.49) as in the field survey it is found that the size of the business as per MSMED Act, 2006, of small enterprises is higher than that of micro enterprises and so the requirements of working capital of small enterprises is larger than the micro enterprises in the valley.

STATISTICAL DATA ANALYSIS

In order to assess whether there is any difference in the opinion of the owners of micro and small enterprises regarding the degree of importance of the factors capable of determining working requirements of the enterprises in the valley, Independent two sample test has been used. Respondents of the two groups have been used as independent variable and factors determining fixed capital requirements of both micro and small scale enterprises have been used as dependent variable.

From the Independent two sample test it is found that except the factors nature of business, size of the business, seasonal variations, credit availability and completion level there is significant difference between micro and small enterprises regarding the degree of importance of the factors capable of determining working capital requirements of the enterprises in the valley.

CONCLUSION

The study finally let us to conclude that the strengths of the factors determining fixed

capital and working capital requirements of the enterprises in Barak Valley are not same. The factors do not have equal impact on fixed capital and working requirements of the enterprises. Nature of business is found as the most important factor determining fixed capital requirements of the enterprises in Barak Valley while diversification is found as the least important factor determining fixed capital requirements of the enterprises in the valley. On the basis of rank 1st, 2nd, third, 4th 5th 6th, 7th and 8th factors determining fixed capital requirements of the enterprises in the valley are nature of business, choice of technology, technology up gradation, method of acquiring fixed assets, growth prospect, size of the business, types of product and diversification. Competition level is found to be the most important factor determining working capital requirements of the enterprises in Barak valley while size of the business is found to be the least important factor determining working capital requirements of the enterprises in the Valley.

The study also concludes that the strengths of the factors determining fixed capital and working capital requirements of both micro and small enterprises are not always remain the same. Notwithstanding, the factors do not have equal impact on fixed and working capital requirements of the enterprises of both the sectors. All the factors are found to have comparatively lesser impact on fixed capital requirements of micro enterprise sector than that of small scale sector. Again, most of the factors are found to have comparatively lesser impact on working requirements of micro enterprise sector than that of small scale sector. Nature of business is found as the most important factor determining fixed capital requirements of both micro and small enterprises in Barak Valley while diversification is found as the least important factor determining fixed capital requirements of both micro and small enterprises in the valley. Again, competition level and size of the business are found to be the most important and least important factors determining working capital requirements of the micro enterprises in Barak Valley while manufacturing process and size of the business are found to be the most important and least important factors determining working capital requirements of the small enterprises in the valley.

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