

Chapter-III

Determinants of Financial Requirements of Micro and Small Enterprises

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Chapter-III

Determinants of Financial Requirements of Micro and Small Enterprises

This chapter entails in it two sections. Section one deals with the identification of determinants of fixed capital requirements and their relative importance in micro and small enterprises. Further the relative importance of the determinants of fixed capital requirements of manufacturing enterprises and service enterprises has also been studied. Section two of this chapter deals with the identification of determinants of working capital requirements and their relative importance in micro and small enterprises. Further the relative importance of the determinants of working capital requirements of manufacturing enterprises and service enterprises has also been studied.

3.1 Identification of Determinants of Fixed Capital Requirements

The financial requirements of an enterprise may be classified into two categories namely fixed capital requirements and working capital requirements. Fixed capital is required to finance the cost of acquisition of both permanent assets and intangible assets. Generally fixed capital requirements are estimated at the time of promotion of a new enterprise but the existing enterprises may also need it at the time of expansion, growth, replacement and improvement of the existing facilities. The requirements of fixed capital of the enterprises may be assessed on the basis of the factors determining fixed capital requirements of the enterprises (Gupta & Sharma, 2013).

From the review of literatures (Sushan, 2009, Gupta, & Gupta, 2011, Gupta, & Sharma, 2013) following fourteen important determinants / factors determining fixed capital requirements of micro and small enterprises have been identified-

- Nature of Business
- Types of Product
- Method of acquiring fixed assets
- Size of the Business
- Growth Prospects

- Choice of Technique
- Product Diversification
- Scope of Business
- Technology Up Gradation
- International environment and economic conditions
- Changes in consumer preference
- Competition
- Government rules and regulations
- Estimation of intangible assets requirements

Moreover, the researcher has conducted a pilot survey on 45 micro enterprises and 5 small enterprises in Barak Valley to identify the factors that actually determine the fixed capital requirements of micro and small enterprises in the Valley and accordingly following eight factors have been identified for fixed capital requirements on the basis of importance of the factors as indicated by the review of literatures and pilot survey-

- Nature of Business,
- Size of the Business,
- Choice of Techniques,
- Method of Acquiring Fixed Assets,
- Growth Prospects,
- Types of Product,
- Product Diversification and
- Technology Upgradation.

After converging the above factors which are identified on the basis of review of literatures and pilot survey, the following eight factors have been selected for the purpose of identifying the factors determining fixed capital requirements of micro and small enterprises in Barak Valley-

- Nature of Business,
- Size of the Business,
- Choice of Techniques,
- Method of Acquiring Fixed Assets,
- Growth Prospects,
- Types of Product,

- Product Diversification and
- Technology Upgradation.

Based on the perception of the respondents, the importance of these factors determining fixed capital requirements of the enterprises in Barak Valley has been identified. For that five point likert scale has been used. Likert items are Extremely Important (EI), Largely Important (LI), Moderately Important (MI), Slightly Important (SI) and Not Important (NI). The value has been assigned to the likert items as EI=5, LI =4, MI=3, SI=2 and NI=1. Total score of each factor has been calculated by multiplying the frequency of each degree of importance of the factors with their value and then by adding the total value of each degree of importance of the factors. The mean score of the factors has been identified by dividing the total score by the total sample enterprises.

Table 3.1 delineates the relative importance of factors determining fixed capital requirements of sample enterprises in Barak Valley. It also shows the factor-wise distribution of mean score of the weightage on the basis of which ranks are provided to the factors.

Table 3.1: Relative Importance of Factors Determining Fixed Capital Requirements of Sample Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|----------------------------------|-------------------|-----------------|---------------------------|
| Nature of Business | 4.07 | 1 st | 0.943 |
| Size of the Business | 2.87 | 6 th | 1.153 |
| Choice of Technique | 3.95 | 2 nd | 1.003 |
| Method of acquiring Fixed Assets | 3.18 | 4 th | 1.224 |
| Growth Prospect | 3.15 | 5 th | 1.262 |
| Types of Product | 2.82 | 7 th | 1.062 |
| Product Diversification | 2.54 | 8 th | 1.314 |
| Technology Up gradation | 3.23 | 3 rd | 1.235 |

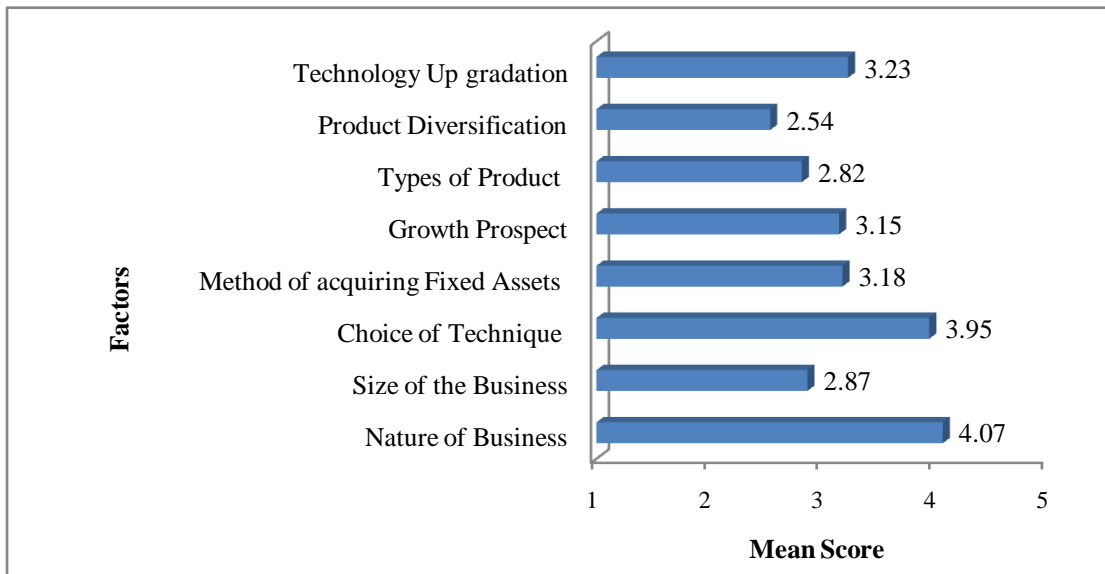
Source: Field Survey

On the basis of the mean score as is reflected in table3.1, it is observed that the most important factor determining fixed capital requirements of sample enterprises is the 'nature of business' because the mean score (4.07) is the highest among all the factors in the study. It is observed that the enterprises in the Valley require larger amount of land, building, machineries etc., due to which these enterprises need large amount of fixed capital. It is due to these reasons 'nature of business' works as the most crucial factor determining fixed capital requirements of sample enterprises in the Valley.

Based on the mean score, it is found that the factor 'choice of technique' (3.95) is the second most important factor determining fixed capital requirements of micro and small enterprises in Barak Valley which is followed by the factors 'technology up gradation' (3.23), 'method of acquiring fixed assets' (3.18), 'growth prospect' (3.15), 'size of the business' (2.87), 'types of product' (2.82) and 'product diversification' (2.54). 'Product diversification' is found to be the least important factor determining fixed capital requirements because the mean score (2.54) of this factor is the lowest among all the factors in the study. It is observed that micro and small enterprises in the Valley do not want to diversify their products and those which have diversified their business from one product line to another line mostly based on their existing fixed assets with little extension and renovation. It is due to this reason 'product diversification' works as the least influential factor determining fixed capital requirements of micro and small enterprises in Barak Valley.

The value of standard deviation of the factor 'nature of business' (0.943) is the lowest among all the factors determining fixed capital requirements of micro and small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor 'product diversification' (1.314) is the highest among all the factors determining fixed capital requirements of micro and small enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.1: Relative Importance of Factors Determining Fixed Capital Requirements of Sample Enterprises



3.2 Relative Importance of Factors Determining Fixed Capital Requirements of Micro Enterprises

Based on the perception of the respondents, the importance of the factors determining fixed capital requirements of micro enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining fixed capital requirements of micro enterprises in Barak Valley.

Table 3.2: Relative Importance of Factors Determining Fixed Capital Requirements of Micro Enterprises

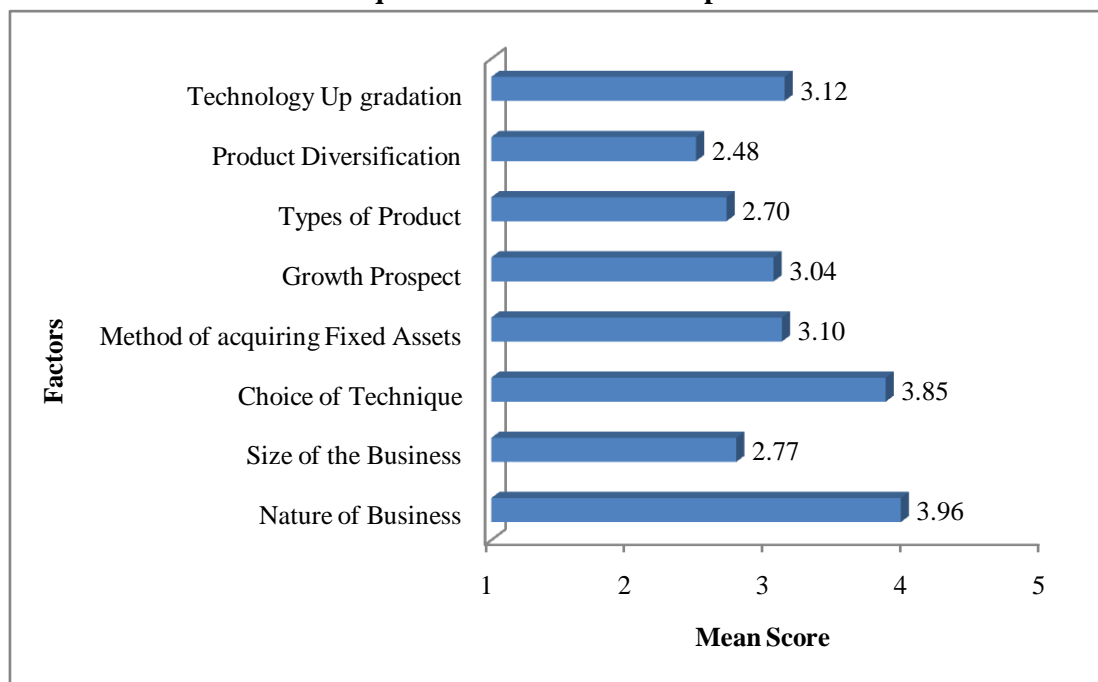
| Factors | Mean Score | Rank | Standard Deviation |
|----------------------------------|------------|-----------------|--------------------|
| Nature of Business | 3.96 | 1 st | 0.956 |
| Size of the Business | 2.77 | 6 th | 1.165 |
| Choice of Technique | 3.85 | 2 nd | 0.999 |
| Method of acquiring Fixed Assets | 3.10 | 4 th | 1.251 |
| Growth Prospect | 3.04 | 5 th | 1.254 |
| Types of Product | 2.70 | 7 th | 1.055 |
| Product Diversification | 2.48 | 8 th | 1.261 |
| Technology Up gradation | 3.12 | 3 rd | 1.259 |

Source: Field Survey

On the basis of the mean score as is reflected in table 3.2, it is observed that the most important factor determining fixed capital requirements of micro enterprises is the ‘nature of business’ because the mean score (3.96) is the highest among all the factors in the study. Based on the mean score, it is found that the factor ‘choice of technique’ (3.85) is the second most important factor determining fixed capital requirements of micro enterprises in Barak Valley which is followed by the factors ‘technology up gradation’ (3.12), ‘method of acquiring fixed assets’ (3.10), ‘growth prospect’ (3.04), ‘size of the business’ (2.77), ‘types of product’ (2.70) and ‘product diversification’ (2.48).

The value of standard deviation of the factor ‘nature of business’ (0.956) is the lowest among all the factors determining fixed capital requirements of micro enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘product diversification’ (1.261) is the highest among all the factors determining fixed capital requirements of micro enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.2: Relative Importance of Factors Determining Fixed Capital Requirements of Micro Enterprises



3.3 Relative Importance of Factors Determining Fixed Capital Requirements of Small Enterprises

Based on the perception of the respondents, the importance of the factors determining fixed capital requirements of small enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining fixed capital requirements of small enterprises in Barak Valley.

Table 3.3: Relative Importance of Factors Determining Fixed Capital Requirements of Small Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|----------------------------------|-------------------|-----------------|---------------------------|
| Nature of Business | 4.58 | 1 st | 0.690 |
| Size of the Business | 3.31 | 7 th | 0.996 |
| Choice of Technique | 4.38 | 2 nd | 0.912 |
| Method of acquiring Fixed Assets | 3.53 | 5 th | 1.036 |
| Growth Prospect | 3.64 | 4 th | 1.190 |
| Types of Product | 3.38 | 6 th | 0.912 |
| Product Diversification | 2.84 | 8 th | 1.507 |
| Technology Up gradation | 3.73 | 3 rd | 0.986 |

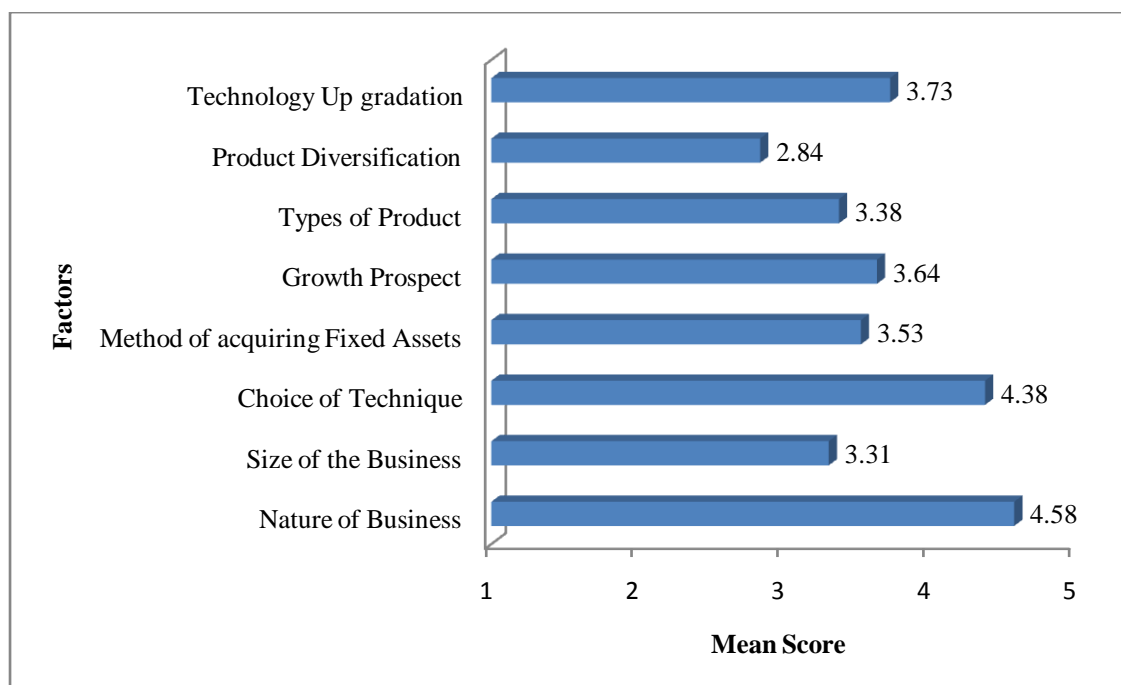
Source: Field Survey

Table 3.3 reveals that the most important factor determining fixed capital requirements of small enterprises is the ‘nature of business’ because the mean score (4.58) is the highest among all the factors in the study. Based on the mean score, it is found that the factor ‘choice of technique’ (4.38) is the second most important factor determining fixed capital requirements of small enterprises in Barak Valley which is followed by the factors ‘technology up gradation’ (3.73), ‘growth prospect’ (3.64), ‘method of acquiring fixed assets’ (3.53), ‘types of product’ (3.38), ‘size of the business’ (3.31) and ‘product diversification’ (2.84).

The value of standard deviation of the factor ‘nature of business’ (0.690) is the lowest among all the factors determining fixed capital requirements of small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the

factor ‘product diversification’(1.507) is the highest among all the factors determining fixed capital requirements of small enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.3: Relative Importance of Factors Determining Fixed Capital Requirements of Small Enterprises



3.4 Statistical Analysis of Relative Importance of Factors Determining Fixed Capital Requirements of Micro Enterprises and Small Enterprises

In order to assess the difference in the degree of importance of select factors capable of determining fixed capital requirements of micro enterprises and small enterprises in Barak Valley, the following hypotheses is formulated:

H₀₁: The responses of the owners / managers of micro enterprises and small enterprises do not significantly vary about the degree of importance of select factors capable of determining fixed capital requirements of the enterprises in Barak Valley.

Table 3.4: Relative Importance of Factors Determining Fixed Capital Requirements of Micro Enterprises and Small enterprises

| Factors | Mean Score | | U-value | p-value | Decision |
|----------------------------------|-------------------|-------------------|----------|---------|----------|
| | Micro Enterprises | Small Enterprises | | | |
| Nature of Business | 3.96 | 4.58 | 2865.000 | 0.000 | Rejected |
| Size of the Business | 2.77 | 3.31 | 3333.500 | 0.004 | Rejected |
| Choice of Technique | 3.85 | 4.38 | 3122.500 | 0.001 | Rejected |
| Method of acquiring Fixed Assets | 3.10 | 3.53 | 3663.000 | 0.041 | Rejected |
| Growth Prospect | 3.04 | 3.64 | 3284.000 | 0.003 | Rejected |
| Types of Product | 2.70 | 3.38 | 2858.000 | 0.000 | Rejected |
| Product Diversification | 2.48 | 2.84 | 3894.000 | 0.134 | Accepted |
| Technology Up gradation | 3.12 | 3.73 | 3214.500 | 0.002 | Rejected |

Source: Field Survey

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of micro enterprises and small enterprises about the degree of importance of the factors namely ‘nature of business’, ‘size of the business’, ‘choice of technique’, ‘method of acquiring fixed assets’, ‘growth prospect’, ‘types of product’ and ‘technology up gradation’ capable of determining fixed capital requirements of the enterprises in Barak Valley at 5% level of significance.

3.5 Relative Importance of Factors Determining Fixed Capital Requirements of Manufacturing Enterprises

Based on the perception of the respondents, the importance of the factors determining fixed capital requirements of manufacturing enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining fixed capital requirements of manufacturing enterprises in Barak Valley.

Table 3.5: Relative Importance of Factors Determining Fixed Capital Requirements of Manufacturing Enterprises

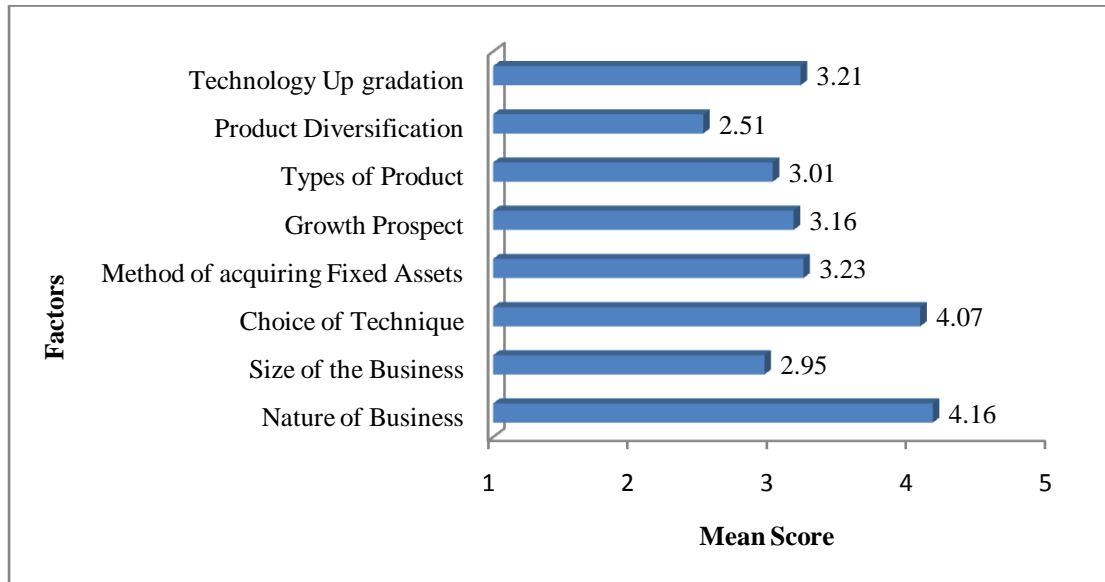
| Factors | Mean Score | Rank | Standard Deviation |
|----------------------------------|-------------------|-----------------|---------------------------|
| Nature of Business | 4.16 | 1 st | 0.901 |
| Size of the Business | 2.95 | 7 th | 1.126 |
| Choice of Technique | 4.07 | 2 nd | 0.928 |
| Method of acquiring Fixed Assets | 3.23 | 3 rd | 1.188 |
| Growth Prospect | 3.16 | 5 th | 1.312 |
| Types of Product | 3.01 | 6 th | 0.938 |
| Product Diversification | 2.51 | 8 th | 1.370 |
| Technology Up gradation | 3.21 | 4 th | 1.268 |

Source: Field Survey

On the basis of the mean score as is reflected in table 3.5, it is observed that the most important factor determining fixed capital requirements of manufacturing enterprises is the ‘nature of business’ because the mean score (4.16) is the highest among all the factors in the study. Based on the mean score, it is found that the factor ‘choice of technique’ (4.07) is the second most important factor determining fixed capital requirements of manufacturing enterprises in Barak Valley which is followed by the factors ‘method of acquiring fixed assets’ (3.23), ‘technology up gradation’ (3.21), ‘growth prospect’ (3.16), ‘types of product’ (3.01), ‘size of the business’ (2.95) and ‘product diversification’ (2.51).

The value of standard deviation of the factor ‘nature of business’ (0.901) is the lowest among all the factors determining fixed capital requirements of manufacturing enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘product diversification’ (1.370) is the highest among all the factors determining fixed capital requirements of manufacturing enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.4: Relative Importance of Factors Determining Fixed Capital Requirements of Manufacturing Enterprises



3.6 Relative Importance of Factors Determining Fixed Capital Requirements of Service Enterprises

Based on the perception of the respondents, the importance of the factors determining fixed capital requirements of service enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining fixed capital requirements of service enterprises in Barak Valley.

Table 3.6: Relative Importance of Factors Determining Fixed Capital Requirements of Service Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|----------------------------------|------------|-----------------|--------------------|
| Nature of Business | 3.71 | 1 st | 1.016 |
| Size of the Business | 2.56 | 7 th | 1.211 |
| Choice of Technique | 3.50 | 2 nd | 1.146 |
| Method of acquiring Fixed Assets | 3.00 | 5 th | 1.343 |
| Growth Prospect | 3.13 | 4 th | 1.067 |
| Types of Product | 2.12 | 8 th | 1.199 |
| Product Diversification | 2.67 | 6 th | 1.080 |
| Technology Up gradation | 3.31 | 3 rd | 1.112 |

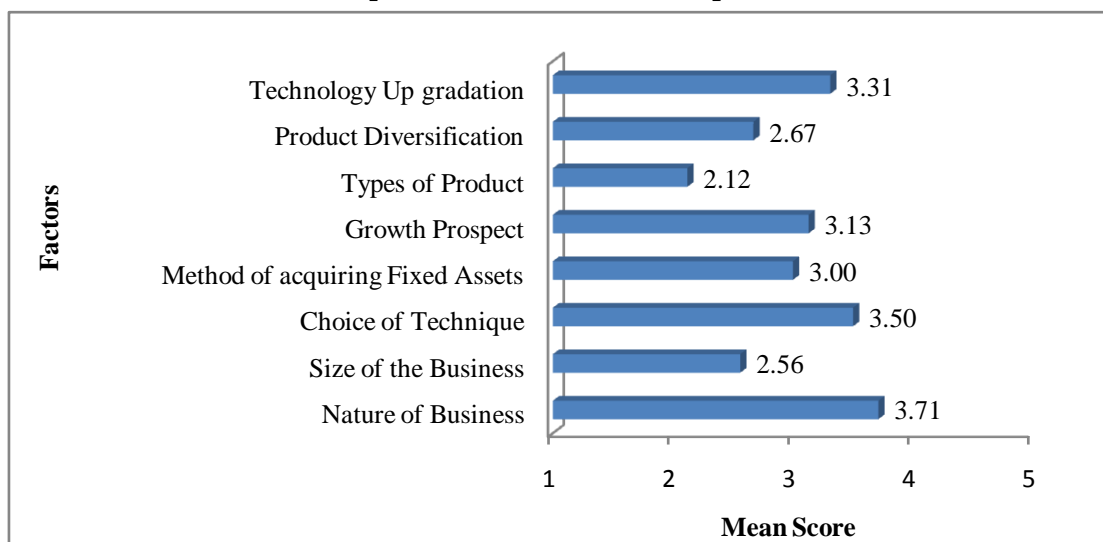
Source: Field Survey

Table 3.6 depicts that the most important factor determining fixed capital requirements of service enterprises is the 'nature of business' because the mean score (3.71) is the

highest among all the factors in the study. Based on the mean score, it is found that the factor ‘choice of technique’ (3.50) is the second most important factor determining fixed capital requirements of service enterprises in Barak Valley which is followed by the factors ‘technology up gradation’ (3.31), ‘growth prospect’ (3.13), ‘method of acquiring fixed assets’ (3.00), ‘product diversification’ (2.67), ‘size of the business’ (2.56) and ‘types of product’ (2.12). It is observed that service enterprises in the Valley provide services of the products whether capital goods or consumer goods produced by the manufacturing enterprises. It is due to this reason ‘types of product’ is the least important factor determining fixed capital requirements of service enterprises in Barak Valley.

The value of standard deviation of the factor ‘nature of business’ (1.016) is the lowest among all the factors determining fixed capital requirements of service enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘method of acquiring fixed assets’ (1.343) is the highest among all the factors determining fixed capital requirements of service enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.5: Relative Importance of Factors Determining Fixed Capital Requirements of Service Enterprises



3.7 Statistical Analysis of Relative Importance of Factors Determining Fixed Capital Requirements of Manufacturing Enterprises and Service Enterprises

In order to assess the difference in the degree of importance of select factors capable of determining fixed capital requirements of manufacturing enterprises and service enterprises in Barak Valley, the following hypotheses is formulated:

H₀2: The responses of the owners / managers of manufacturing enterprises and service enterprises do not significantly vary about the degree of importance of select factors capable of determining fixed capital requirements of the enterprises in Barak Valley.

Table 3.7: Relative Importance of Factors Determining Fixed Capital Requirements of Manufacturing Enterprises and Service enterprises

| Factors | Mean Score | | U-value | p-value | Decision |
|----------------------------------|---------------------------|---------------------|----------|---------|----------|
| | Manufacturing Enterprises | Service Enterprises | | | |
| Nature of Business | 4.16 | 3.71 | 3792.000 | 0.003 | Rejected |
| Size of the Business | 2.95 | 2.56 | 4168.500 | 0.046 | Rejected |
| Choice of Technique | 4.07 | 3.50 | 3632.000 | 0.001 | Rejected |
| Method of acquiring Fixed Assets | 3.23 | 3.00 | 4503.000 | 0.222 | Accepted |
| Growth Prospect | 3.16 | 3.13 | 4932.500 | 0.802 | Accepted |
| Types of Product | 3.01 | 2.12 | 2852.500 | 0.000 | Rejected |
| Product Diversification | 2.51 | 2.67 | 4592.500 | 0.308 | Accepted |
| Technology Up gradation | 3.21 | 3.31 | 4867.000 | 0.688 | Accepted |

Source: Field Survey

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of manufacturing enterprises and service enterprises about the degree of importance of the factors namely ‘nature of business’, ‘size of the business’, ‘choice of technique’ and ‘types of product’ capable of determining fixed capital requirements of the enterprises in Barak Valley at 5% level of significance.

3.8 Identification of Determinants of Working Capital Requirements

There are no specific rules to estimate the level of working capital of an enterprise (Pathak & Kalwar, 2011). The factors that influence the requirements of working capital vary from time to time (Kantilal, 2011). Each factor has different importance. However, from the review of literatures (Palanichamy, 1992, Jani, 2007, Nazir, & Afza, 2009, Vora, 2009, Mathur, 2010, Rao, 2010, Popat, 2011, Kantilal, 2011, Saarani, & Shahadan, 2012, Abbadi, & Abbadi, 2013) following twenty five important factors that generally influence the working capital requirements of the enterprises have been identified-

- Nature of Business
- Size of the Business
- Credit Availability
- Seasonal Variations
- Manufacturing cycle
- Leverage
- Return on Assets
- Tangibility of Assets
- Growth Opportunities
- Level of Economic Activity
- Working Capital Cycle
- Rate of Stock Turnover
- Profit Planning and Control
- Credit Policy
- Rate of Growth of Business
- Earning Capacity
- Dividend Policy
- Production Policy
- Operating Efficiency and Performance
- Management's Ability
- Business Cycles
- Profit Appropriation
- Price Level Changes
- External Environment
- Demand Conditions

Moreover, the researcher has conducted a pilot survey on 45 micro enterprises and 5 small enterprises in Barak Valley to identify the factors that actually determine the working capital requirements of micro and small enterprises in the Valley and accordingly following twelve factors have been identified for working capital requirements on the basis of importance of the factors as indicated by the review of literatures and pilot survey-

- 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.

After converging the above factors which are identified on the basis of review of literatures and pilot survey, the following twelve factors have been selected for the purpose of identifying the factors determining working capital requirements of micro and small enterprises in Barak Valley-

- 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.

Based on the perception of the respondents, the importance of these factors for identifying the working capital requirements of the enterprises in Barak Valley has been studied. For that five point likert scale has been used. Likert items are Extremely Important (EI), Largely Important (LI), Moderately Important (MI), Slightly Important (SI) and Not Important (NI). The value has been assigned to the likert items as EI=5, LI =4, MI=3, SI=2 and NI=1. Total score of each factor has been calculated by multiplying the frequency of each degree with their value and then by adding the total value of each degree of the factors. The mean score of the factors has been identified by dividing the total score by the total sample enterprises.

Table 3.8: Relative Importance of Factors Determining Working Capital Requirements of Sample Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|------------------------|-------------------|------------------|---------------------------|
| Nature of Business | 3.37 | 4 th | 1.168 |
| Size of the Business | 2.50 | 12 th | 1.283 |
| Seasonal Variations | 2.81 | 10 th | 1.443 |
| Manufacturing Process | 3.40 | 3 rd | 1.335 |
| Working Capital Cycle | 3.50 | 2 nd | 1.428 |
| Rate of Stock Turnover | 3.06 | 8 th | 1.370 |
| Credit Policy | 2.77 | 11 th | 1.037 |
| Business Cycles | 3.05 | 9 th | 1.054 |
| Rate of Growth | 3.12 | 7 th | 0.995 |
| Earning Capacity | 3.26 | 6 th | 0.967 |
| Credit Availability | 3.35 | 5 th | 1.188 |
| Competition Level | 3.55 | 1 ST | 1.338 |

Source: Field Survey

Table 3.8 delineates the weightage of importance of the factors determining working capital requirements of sample enterprises in Barak Valley. It also shows the factor – wise distribution of mean score of the weightage on the basis of which ranks are provided to the factors.

On the basis of the mean score as is reflected in table 3.8, it is observed that the most important factor determining working capital requirements of micro and small enterprises is the ‘competition level’ because the mean score (3.55) is the highest among all the factors in the study. It is observed that micro and small enterprises in

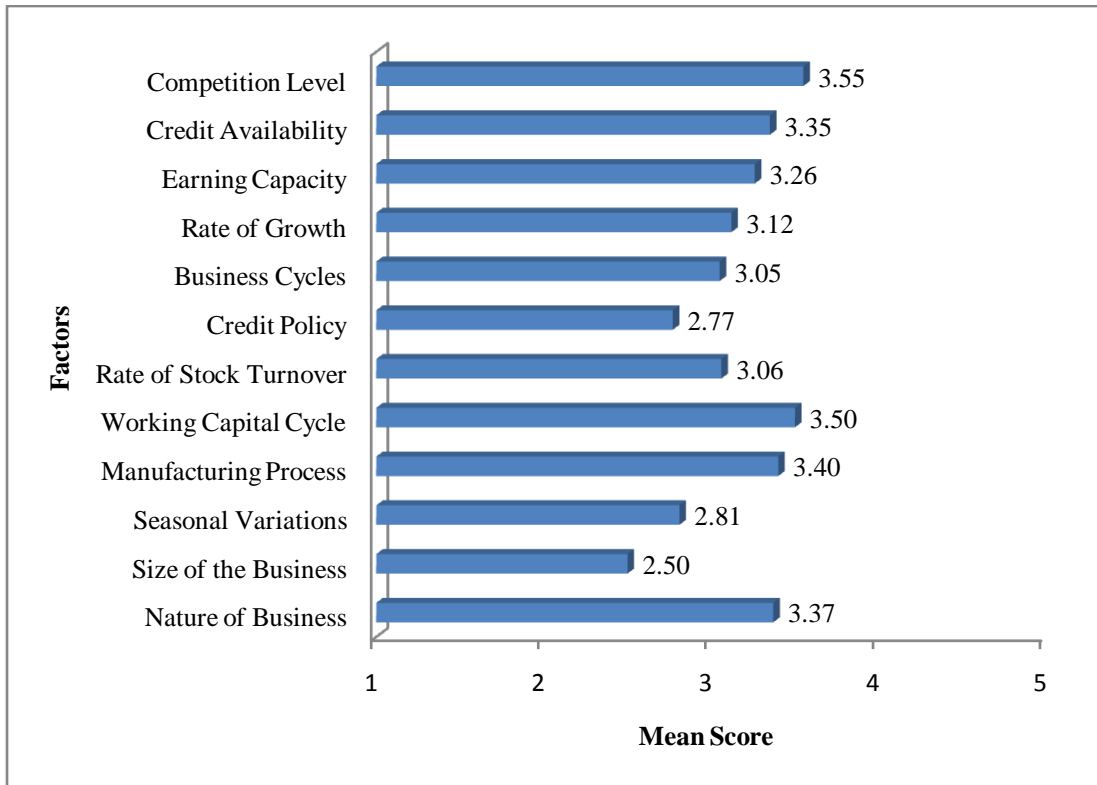
the Valley face stiff competition in selling their products to the customers and so they require large amount of working capital. It is due to this reason 'competition level' works as the most crucial factor determining working capital requirements of micro and small enterprises in Barak Valley.

Based on the mean score, it is found that the factor 'working capital cycle' (3.50) is the second most important factor determining working capital requirements of micro and small enterprises in Barak Valley which is followed by the factors 'manufacturing process' (3.40), 'nature of business' (3.37), 'credit availability' (3.35), 'earning capacity' (3.26), 'rate of growth' (3.12), 'rate of stock turnover' (3.06), 'business cycles' (3.05), 'seasonal variations' (2.81), 'credit policy' (2.77) and 'size of the business' (2.50).

'Size of the business' is found to be the least important factor determining working capital requirements of micro and small enterprises in the Valley because the mean score (2.50) of this factor is lowest among all the factors in the study. In the field survey it is observed that the scale of operations of micro and small enterprises in the Valley is small. It is due to this reason 'size of the business' works as the least influential factor determining working capital requirements of micro and small enterprises in Barak Valley.

The value of standard deviation of the factor 'earning capacity'(0.967) is the lowest among all the factors determining working capital requirements of micro and small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor 'seasonal variations' (1.443) is the highest among all the factors determining working capital requirements of micro and small enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.6: Relative Importance of Factors Determining Working Capital Requirements of Sample Enterprises



3.9 Relative Importance of Factors Determining Working Capital Requirements of Micro Enterprises

Based on the perception of the respondents, the importance of the factors determining working capital requirements of micro enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining working capital requirements of micro enterprises in Barak Valley.

On the basis of the mean score as is reflected in table 3.9, it is observed that the most important factor determining working capital requirements of micro enterprises is the ‘competition level’ because the mean score (3.47) is the highest among all the factors in the study. Based on the mean score, it is found that the factor ‘credit availability’ (3.39) is the second most important factor determining working capital requirements of micro enterprises in Barak Valley which is followed by the factors ‘nature of business’ (3.37), ‘working capital cycle’ (3.35), ‘manufacturing process’ (3.21), ‘earning capacity’ (3.18), ‘rate of growth’ (3.02), ‘rate of stock turnover’ (2.96),

‘business cycles’ (2.94), ‘seasonal variations’ (2.78), ‘credit policy’ (2.64) and ‘size of the business’ (2.49).

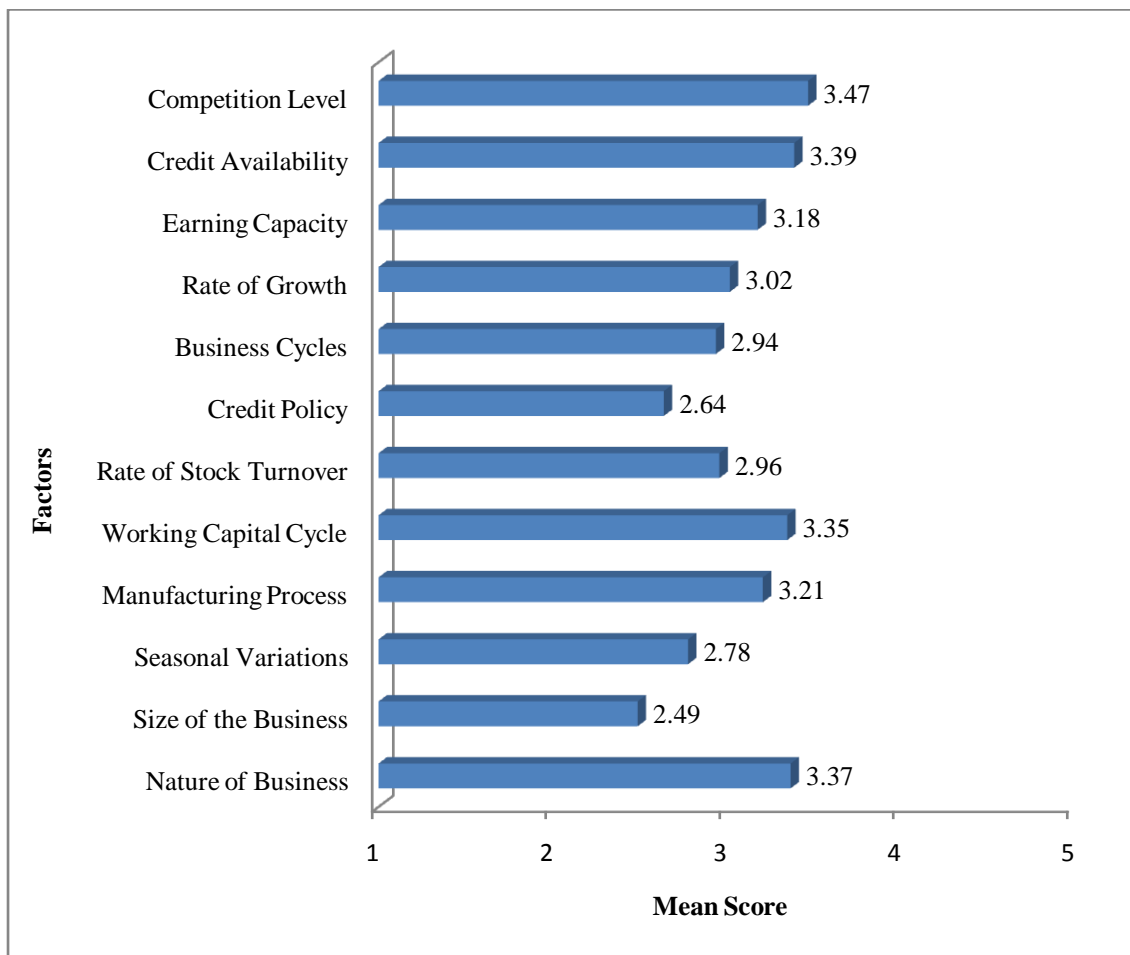
Table 3.9: Relative Importance of Factors Determining Working Capital Requirements of Micro Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|------------------------|-------------------|------------------|---------------------------|
| Nature of Business | 3.37 | 3 rd | 1.170 |
| Size of the Business | 2.49 | 12 th | 1.308 |
| Seasonal Variations | 2.78 | 10 th | 1.411 |
| Manufacturing Process | 3.21 | 5 th | 1.329 |
| Working Capital Cycle | 3.35 | 4 th | 1.432 |
| Rate of Stock Turnover | 2.96 | 8 th | 1.396 |
| Credit Policy | 2.64 | 11 th | 0.981 |
| Business Cycles | 2.94 | 9 th | 1.044 |
| Rate of Growth | 3.02 | 7 th | 0.992 |
| Earning Capacity | 3.18 | 6 th | 0.965 |
| Credit Availability | 3.39 | 2 nd | 1.225 |
| Competition Level | 3.47 | 1 st | 1.342 |

Source: Field Survey

The value of standard deviation of the factor ‘earning capacity’ (0.965) is the lowest among all the factors determining working capital requirements of micro enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘working capital cycle’ (1.432) is the highest among all the factors determining working capital requirements of micro enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.7: Relative Importance of Factors Determining Working Capital Requirements of Micro Enterprises



3.10 Relative Importance of Factors Determining Working Capital Requirements of Small Enterprises

Based on the perception of the respondents, the importance of the factors determining working capital requirements of small enterprises in Barak Valley has been identified. Table 3.10 exhibits the relative importance of the factors determining working capital requirements of small enterprises in Barak Valley.

Table 3.10 displays that the most important factor determining working capital requirements of small enterprises is the 'manufacturing process' because the mean score (4.24) is the highest among all the factors in the study. It is observed that the period of manufacturing process of small enterprises in the Valley is longer and hence these enterprises require large amount of working capital. It is due to this reason the

factor ‘manufacturing process’ works to be the most influential factor determining working capital requirements of small enterprises in Barak Valley.

Table 3.10: Relative Importance of Factors Determining Working Capital Requirements of Small Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|------------------------|-------------------|------------------|---------------------------|
| Nature of Business | 3.20 | 9 th | 1.160 |
| Size of the Business | 2.56 | 12 th | 1.179 |
| Seasonal Variations | 2.93 | 11 th | 1.587 |
| Manufacturing Process | 4.24 | 1 st | 1.004 |
| Working Capital Cycle | 4.18 | 2 nd | 1.211 |
| Rate of Stock Turnover | 3.51 | 6 th | 1.160 |
| Credit Policy | 3.38 | 8 th | 1.072 |
| Business Cycles | 3.47 | 7 th | 0.941 |
| Rate of Growth | 3.56 | 5 th | 0.893 |
| Earning Capacity | 3.58 | 4 th | 0.917 |
| Credit Availability | 3.16 | 10 th | 0.999 |
| Competition Level | 3.89 | 3 rd | 1.283 |

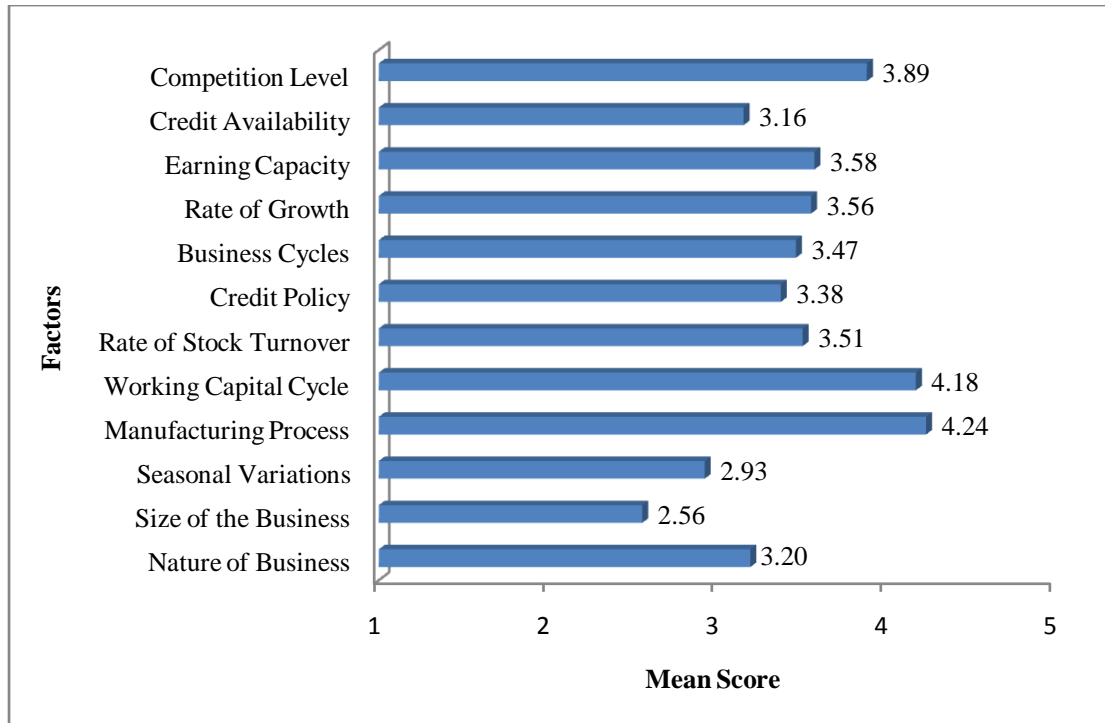
Source: Field Survey

Based on the mean score, it is found that the factor ‘working capital cycle’ (4.18) is the second most important factor determining working capital requirements of small enterprises in Barak Valley which is followed by the factors ‘competition level’ (3.89), ‘earning capacity’ (3.58), ‘rate of growth’ (3.56), ‘rate of stock turnover’ (3.51), ‘business cycles’ (3.47), ‘credit policy’ (3.38), ‘nature of business’ (3.20), ‘credit availability’ (3.16), ‘seasonal variations’ (2.93) and ‘size of the business’ (2.56).

The value of standard deviation of the factor ‘rate of growth’ (0.893) is the lowest among all the factors determining working capital requirements of small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘seasonal variations’ (1.587) is the highest among all the factors determining

working capital requirements of small enterprises in the Valley which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.8: Relative Importance of Factors Determining Working Capital Requirements of Small Enterprises



3.11 Statistical Analysis of Relative Importance of Factors Determining Working Capital Requirements of Micro Enterprises and Small Enterprises

In order to assess the difference in the degree of importance of select factors capable of determining working capital requirements of micro enterprises and small enterprises in Barak Valley, the following hypotheses is formulated:

H₀₃: The responses of the owners / managers of micro enterprises and small enterprises do not significantly vary about the degree of importance of select factors capable of determining working capital requirements of the enterprises in Barak Valley.

Table 3.11: Relative Importance of Factors Determining Working Capital Requirements of Micro Enterprises and Small Enterprises

| Factors | Micro Enterprises | Small Enterprises | U-value | p-value | Decision |
|------------------------|-------------------|-------------------|----------|---------|----------|
| | Mean Score | Mean Score | | | |
| Nature of Business | 3.37 | 3.20 | 4140.500 | 0.360 | Accepted |
| Size of the Business | 2.49 | 2.56 | 4315.000 | 0.620 | Accepted |
| Seasonal Variations | 2.78 | 2.93 | 4284.000 | 0.571 | Accepted |
| Manufacturing Process | 3.21 | 4.24 | 2476.500 | 0.000 | Rejected |
| Working Capital Cycle | 3.35 | 4.18 | 3015.500 | 0.000 | Rejected |
| Rate of Stock Turnover | 2.96 | 3.51 | 3522.500 | 0.018 | Rejected |
| Credit Policy | 2.64 | 3.38 | 2834.000 | 0.000 | Rejected |
| Business Cycles | 2.94 | 3.47 | 3022.500 | 0.000 | Rejected |
| Rate of Growth | 3.02 | 3.56 | 3221.500 | 0.002 | Rejected |
| Earning Capacity | 3.18 | 3.58 | 3539.500 | 0.016 | Rejected |
| Credit Availability | 3.39 | 3.16 | 3895.500 | 0.134 | Accepted |
| Competition Level | 3.47 | 3.89 | 3666.000 | 0.041 | Rejected |

Source: Field Survey

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of micro enterprises and small enterprises about the degree of importance of the factors namely ‘manufacturing process’, ‘working capital cycle’, ‘rate of stock turnover’, ‘credit policy’, ‘business cycles’, ‘rate of growth’, ‘earning capacity’ and ‘competition level’ capable of determining working capital requirements of the enterprises in Barak Valley at 5% level of significance.

3.12 Relative Importance of Factors Determining Working Capital Requirements of Manufacturing Enterprises

Based on the perception of the respondents, the importance of the factors determining working capital requirements of manufacturing enterprises in Barak Valley has been

identified. Following table exhibits the relative importance of the factors determining working capital requirements of manufacturing enterprises in Barak Valley.

Table 3.12: Relative Importance of Factors Determining Working Capital Requirements of Manufacturing Enterprises

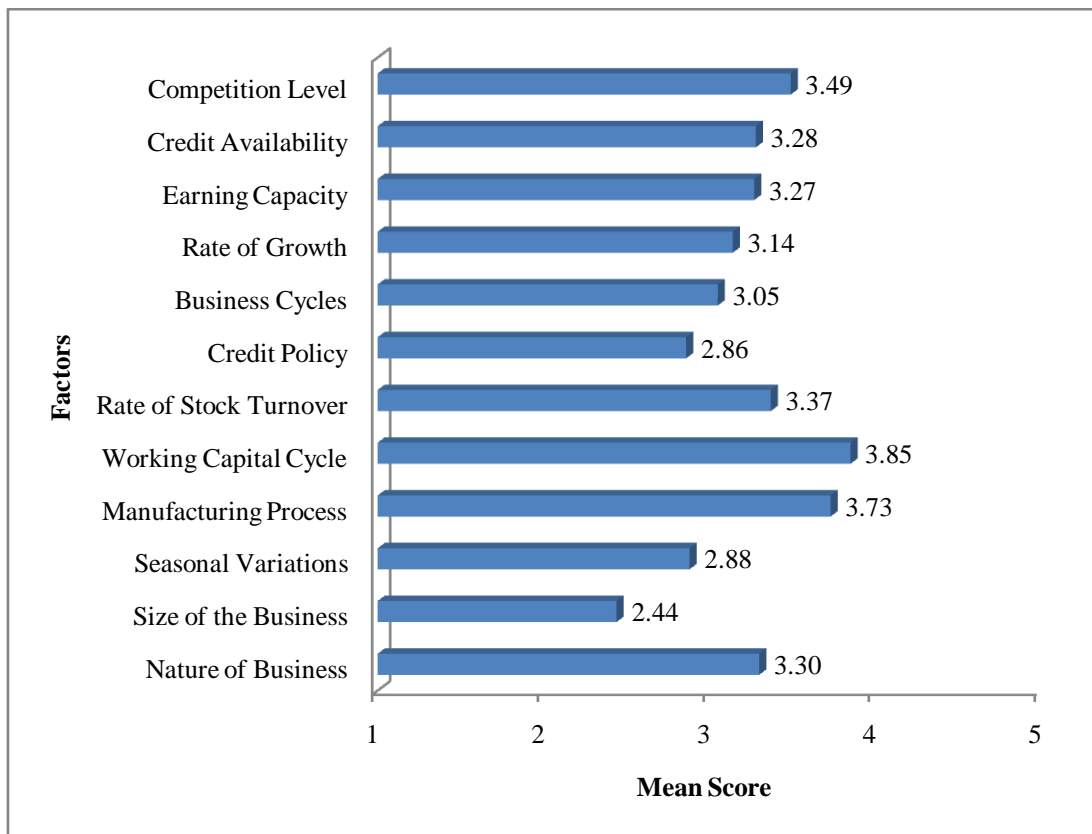
| Factors | Mean Score | Rank | Standard Deviation |
|------------------------|-------------------|------------------|---------------------------|
| Nature of Business | 3.30 | 5 th | 1.135 |
| Size of the Business | 2.44 | 12 th | 1.271 |
| Seasonal Variations | 2.88 | 10 th | 1.447 |
| Manufacturing Process | 3.73 | 2 nd | 1.196 |
| Working Capital Cycle | 3.85 | 1 st | 1.252 |
| Rate of Stock Turnover | 3.37 | 4 th | 1.282 |
| Credit Policy | 2.86 | 11 th | 1.031 |
| Business Cycles | 3.05 | 9 th | 1.062 |
| Rate of Growth | 3.14 | 8 th | 1.006 |
| Earning Capacity | 3.27 | 7 th | 0.998 |
| Credit Availability | 3.28 | 6 th | 1.198 |
| Competition Level | 3.49 | 3 rd | 1.411 |

Source: Field Survey

On the basis of the mean score as is reflected in table 3.12, it is observed that the most important factor determining working capital requirements of manufacturing enterprises is the ‘working capital cycle’ because the mean score (3.85) is the highest among all the factors in the study. It is observed that the period of working capital cycle of manufacturing enterprises in the Valley is longer and so the factor ‘working capital cycle’ has been considered to be the most crucial factor determining working capital requirements of manufacturing enterprises in Barak Valley. Based on the mean score, it is found that the factor ‘manufacturing process’ (3.73) is the second most important factor determining working capital requirements of manufacturing enterprises in Barak Valley which is followed by the factors ‘competition level’ (3.49), ‘rate of stock turnover’ (3.37), ‘nature of business’ (3.30), ‘credit availability’ (3.28), ‘earning capacity’ (3.27), ‘rate of growth’ (3.14), ‘business cycles’ (3.05), ‘seasonal variations’ (2.88), ‘credit policy’ (2.86) and ‘size of the business’ (2.44).

The value of standard deviation of the factor ‘earning capacity’ (0.998) is the lowest among all the factors determining working capital requirements of manufacturing enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘seasonal variations’ (1.447) is the highest among all the factors determining working capital requirements of manufacturing enterprises in the Valley which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.9: Relative Importance of Factors Determining Working Capital Requirements of Manufacturing Enterprises



3.13 Relative Importance of Factors Determining Working Capital Requirements of Service Enterprises

Based on the perception of the respondents, the importance of the factors determining working capital requirements of service enterprises in Barak Valley has been identified. Following table exhibits the relative importance of the factors determining working capital requirements of service enterprises in Barak Valley.

Table 3.13: Relative Importance of Factors Determining Working Capital Requirements of Service Enterprises

| Factors | Mean Score | Rank | Standard Deviation |
|------------------------|-------------------|------------------|---------------------------|
| Nature of Business | 3.56 | 3 rd | 1.274 |
| Size of the Business | 2.73 | 7 th | 1.315 |
| Seasonal Variations | 2.54 | 8 th | 1.407 |
| Manufacturing Process | 2.15 | 11 th | 1.073 |
| Working Capital Cycle | 2.21 | 10 th | 1.304 |
| Rate of Stock Turnover | 1.92 | 12 th | 1.064 |
| Credit Policy | 2.44 | 9 th | 0.998 |
| Business Cycles | 2.98 | 6 th | 1.037 |
| Rate of Growth | 3.06 | 5 th | 0.958 |
| Earning Capacity | 3.21 | 4 th | 0.848 |
| Credit Availability | 3.62 | 2 nd | 1.123 |
| Competition Level | 3.75 | 1 st | 1.007 |

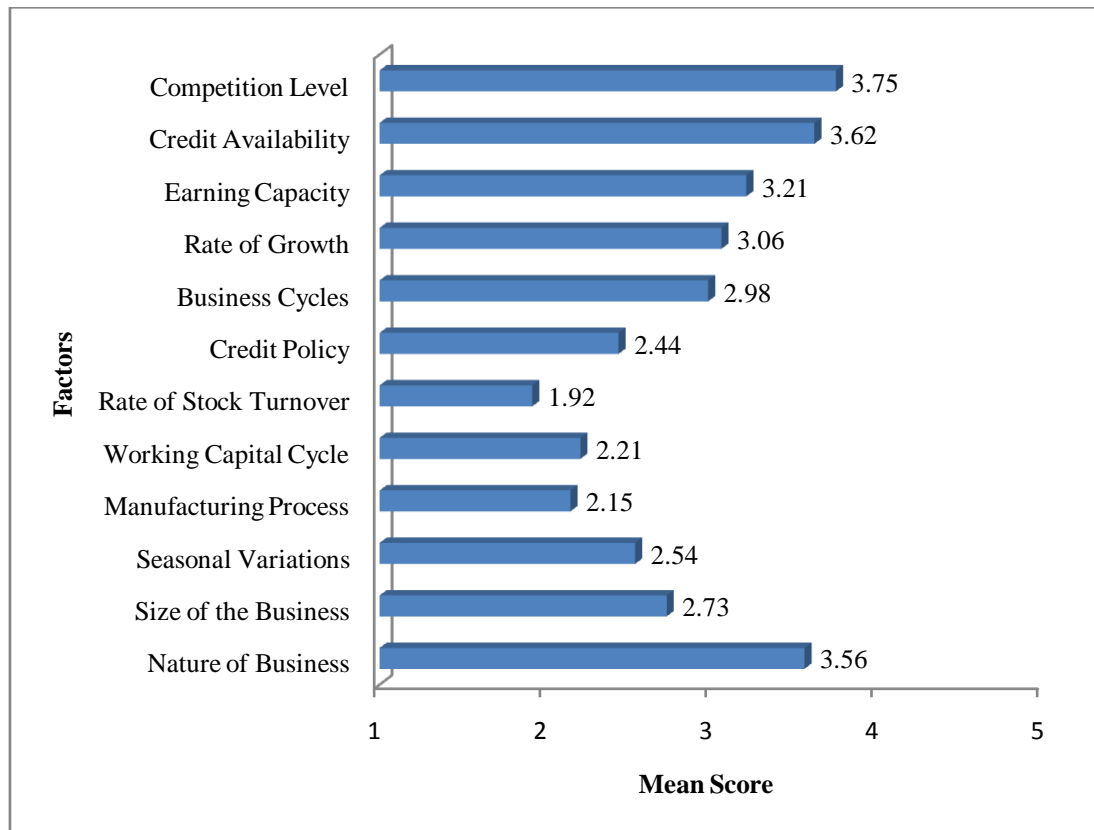
Source: Field Survey

On the basis of the mean score as is reflected in table 3.13, it is observed that the most important factor determining working capital requirements of service enterprises is the ‘competition level’ because the mean score (3.75) is the highest among all the factors in the study. Based on the mean score, it is found that the factor ‘credit availability’ (3.62) is the second most important factor determining working capital requirements of service enterprises in Barak Valley which is followed by the factors ‘nature of business’ (3.56), ‘earning capacity’ (3.21), ‘rate of growth’ (3.06), ‘business cycles’ (2.98), ‘size of the business’ (2.73), ‘seasonal variations’ (2.54), ‘credit policy’ (2.44), ‘working capital cycle’ (2.21), ‘manufacturing process’ (2.15) and ‘rate of stock turnover’ (1.92).

The value of standard deviation of the factor ‘earning capacity’ (0.848) is the lowest among all the factors determining working capital requirements of service enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor ‘seasonal variations’ (1.407) is the highest among all the factors determining

working capital requirements of service enterprises in the Valley which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Figure 3.10: Relative Importance of Factors Determining Working Capital Requirements of Service Enterprises



3.14 Statistical Analysis of Relative Importance of Factors Determining Working Capital Requirements of Manufacturing Enterprises and Service Enterprises

In order to assess the difference in the degree of importance of select factors capable of determining working capital requirements of manufacturing enterprises and service enterprises in Barak Valley, the following hypotheses is formulated:

H₀₄: The responses of the owners / managers of manufacturing enterprises and service enterprises do not significantly vary about the degree of importance of select factors capable of determining working capital requirements of the enterprises in Barak Valley.

Table 3.14: Relative Importance of Factors Determining Working Capital Requirements of Manufacturing Enterprises and Service Enterprises

| Factors | Mean Score | | U-value | P-value | Decision |
|------------------------|---------------------------|---------------------|----------|---------|----------|
| | Manufacturing Enterprises | Service Enterprises | | | |
| Nature of Business | 3.30 | 3.56 | 4322.500 | 0.102 | Accepted |
| Size of the Business | 2.44 | 2.73 | 4393.500 | 0.142 | Accepted |
| Seasonal Variations | 2.88 | 2.54 | 4377.000 | 0.133 | Accepted |
| Manufacturing Process | 3.73 | 2.15 | 1780.000 | 0.000 | Rejected |
| Working Capital Cycle | 3.85 | 2.21 | 1958.000 | 0.000 | Rejected |
| Rate of Stock Turnover | 3.37 | 1.92 | 2086.500 | 0.000 | Rejected |
| Credit Policy | 2.86 | 2.44 | 3889.000 | 0.007 | Rejected |
| Business Cycles | 3.05 | 2.98 | 4937.000 | 0.805 | Accepted |
| Rate of Growth | 3.14 | 3.06 | 4751.000 | 0.501 | Accepted |
| Earning Capacity | 3.27 | 3.21 | 4868.000 | 0.684 | Accepted |
| Credit Availability | 3.28 | 3.62 | 4310.500 | 0.097 | Accepted |
| Competition Level | 3.49 | 3.75 | 4753.000 | 0.510 | Accepted |

Source: Field Survey

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of manufacturing enterprises and service enterprises about the degree of importance of the factors namely ‘manufacturing process’, ‘working capital cycle’, ‘rate of stock turnover’ and ‘credit policy’ capable of determining working capital requirements of the enterprises in Barak Valley at 5% level of significance.

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