1.1 Introduction

Micro, Small and Medium Enterprises (MSME) sector has occupied centrality in policy and research across the world. This sector has been lauded for its contribution to job creation, employment, and national income of a country. Micro and small enterprises contribute to entrepreneurship, economic dynamism, linkages in value chains with larger firms (Ayyagari, 2008). These are potential instruments in generating employments, exports, investment and expanded economic growth (Harvie and Lee, 2005). Well managed and healthy MSMEs have a crucial role to play because of their potential contribution to employment creation, improvement of income distribution, poverty alleviation, and growth of exports of manufactured products, development of entrepreneurship, manufacturing industry and rural economy (MSME Annual Report, 2013). The importance of small firms in job creation, technological innovation and in general economic rejuvenation is accepted by most economists, management theorists and even policy makers (Khan and Manopichetwattana 1989). Small business sector is an important part of the economy and their success is held essential to the economic health of a nation (Broom and Longenecker, 1979).

The role of small business has been that of distinction and contribution. The international experience suggests that an efficient SME sector is conducive to rapid industrial growth and a flexible industrial structure (Hill, 2001). Small firms and new firms play an increasingly important role in economic growth and particularly in job creation (Storey 1984). SMEs play a central role in poverty reduction as “connectors” of local economic activity (Gibson and Van der Vaart, 2008).
According to the International Finance Corporation, there is a positive relationship between a country's overall level of income and number of SMEs per 1000 people (Derek, 2006). The establishment and nurturing of MSMEs is a vital ingredient in creating dynamic market economies. A vibrant MSME sector provides a strong foundation of innovation, regional development, and job creation. The International Labour Organization elucidates the dual criteria of SMEs in not only creating income and wealth but also employment and work. Nowadays it has been acknowledged internationally that (M)SMEs do not simply create jobs, they are central to creating a democratic society and developing an enterprise culture. This is because of the wider role of SMEs played in terms of social, economic, and political development (OECD & UNIDO 2001).

Small and medium enterprise segment of businesses occupies the space between microenterprises and large firms. They pose opportunities and challenges that are distinctly different from those of the other two groups (Gibson & Van der Vaaart, 2008). However, it is observed that authors, practitioners, and governments do not have a consensus on what actually constitutes a small and medium business definition of what actually qualifies as a small business. This is a fundamental problem that must be addressed (Storey 1994). Defining the small firm is perceived as difficult (Stanworth and Currin 1981) with no consensus in the literature as to what constitutes a "Small" firm (Ibrahim & Goodwin 1986; Keats and Bracker 1988; Kenny & Dyson 1989, Cromie 1994, Karlson and Ahlstrom 1997 and Deakins 1999). The criteria used to classify a firm as small include size by number of employees, sales volume, asset size, type of customer and capital requirement (Ibrahim and Goodwin 1986) and sheer organizational size or industry market share (Chen & Hambrick 1995).
Not surprisingly therefore countries, funding agencies, development agencies come up with their own constructs of small and medium enterprises. The variables trying to define small business across countries include maximum number of employees, annual revenue, size of plant and machinery, total assets etc. These variables vary by the type of the national governments in question, regional affiliation of the countries, the development agency, and the geography which they pertain to. What it results in is a diverse array of definitions across countries, and the popular acronym MSME could mean disproportional terms of reference to micro, small and medium enterprises (Gibson & Van der Vaart, 2008). In India, the MSMED Act 2006 defines micro, small and medium enterprises in Section 7(a) of the Act as:

(a) In the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, as-

(i) A micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;

(ii) A small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees;

(iii) A medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(b) In the case of enterprises engaged in providing or rendering of services as-

(i) A micro enterprise, where the investment in equipment does not exceed ten lakh rupees;

(ii) A small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees;
(iii) A medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees (Gazette Notification. Government of India. 2006).

The MSMED, 2006 is a game changer of sorts. The Act saw to the fact that focus shifted from the concept of ‘industries’ to ‘enterprises’ as is evident from the introduction to the MSMED Act, 2006;

An Act to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto (MSMED, 2006).

While the IRDA, 1951 sought the development and regulation of the industries, the MSMED, 2006 carved itself as a facilitator rather than a regulator, incorporating elements of competitiveness and promotion.

1.2 Statement of the Problem

Internationally the small and medium enterprises have been referred to as the ‘missing middle’ of the developing countries (Centre for International Development, Harvard University). Developing nations have unique phenomena of greater number of informal micro enterprises and formalised larger enterprises. What seems to be missing is the presence of a strong and vibrant small and medium sector. This is in sharp contrast to the high income countries. This concept holds true for India as well and is particularly well observed in the state of Arunachal Pradesh. The absence of healthy number of medium enterprises does speak well for the industrial scenario of the state. Small and medium enterprises are unique entities whose existence determines to a large extent the ground realities of industrialisation in a state. Arunachal Pradesh has been at the
receiving end of central industrial policies, regional level industrial policies (NEIIP) and state specific industrial policy (1994, 2001, and 2008) but is still reckoned as one of the least industrially developed states in the country. In Arunachal Pradesh there were only 452 registered small industries and 16 medium industries employing a total of 12293 persons as on 31st March 2009 (Statistical Abstract of Arunachal Pradesh, Directorate of Economics and Statistics, Itanagar, 2009); against the all India figure of 1552492 in 2009-10 (MSME Annual Report, 2009-10). There is not a single large enterprise in the state.

The industrial sector employs only 9.27 percent of workers in the state in 2005-06 and the local workers were only 3.11 percent. There was no medium enterprise in Arunachal Pradesh till 2000. In 2009, 16 Medium industries were confined to only 5 districts of the state (Statistical Abstract of Arunachal Pradesh, Directorate of Economics and Statistics, Itanagar, 2009). Business clusters as a policy tool are gaining clout in international SME policies over the world. India, too, recognises the agglomeration economies and endogenous development brought about by local concentration of SMEs. The cluster formation in India is evident in the industrialized state of Maharastra, Gujarat, Punjab, Rajasthan, Tamil Nadu and Haryana. Most of these clusters are natural and development of infrastructure based cluster is a relatively new phenomenon and these are mainly induced cluster of electronics, software, floriculture and biotechnology (Gomes, 2001). The Ministry of MSME has provided for a village industry cluster in West Kameng district of Arunachal Pradesh. Industrial Estates and Industrial Areas have been constructed/notified in 11 districts of the state but many of the sheds remain unallotted and unused. Even the Industrial Growth Centres in Bam, West Siang, and Niglok, East Siang are yet to be fully functional.
SME is seen as a potentially generator of enterprise economy and integral to economic development. In a tribal economy like Arunachal Pradesh, which is essentially a subsistence economy, enterprises are vital to development. There is growing need for healthy SMEs for this industrially backward state of the North Eastern Region. The meagre number of SMEs in the state is a cause of concern implying that there are gaps in the enabling environment of policies of the government in the state. Moreover the performance of the functioning enterprise is not known, as there is a dearth of research pertaining to the SMEs of the state. A few micro level research studies had been carried out, most of them prior to 2006, before the nomenclature of SSIs was changed to SMEs. Little attention is paid to the policy framework regarding the SMEs of the entire state of Arunachal Pradesh. Hence the present study could have significance in the context of small and medium enterprise sector in the state. The present study figures out the performance of small and medium enterprises in the industrially backward state of Arunachal Pradesh. The study is aimed at looking at the development of the SME sector under the different plans and policies of the government of India and Arunachal Pradesh. It also focuses on the major issues and challenges faced by the SME sector. As such the above research issues posit the following questions:

(i) What is the status of Small and Medium enterprises in Arunachal Pradesh vis-a-vis absolute numbers, employment, organisation structure, human resource function?

(ii) Does government policy at national, regional and state level address the unique requirements of SME in the state?

(iii) Does the SME in the state demonstrate a tendency to create only particular types of industries?
(iv) Is there a difference in the pattern of such SMEs in terms of their location and urban-rural setting?

(v) How oriented are these SMEs in terms of executing marketing function?

(vi) What internal constraints and problems inhibit the growth and development of these SMEs?

1.3 Review of Literature

Berna (1960) conducted an in depth study of 52 medium-scale manufacturing units engaged in light engineering production in and around the Madras and Coimbatore Cities. He found that many of the medium units had grown out of small scale units but their technological performance was not very good. The author highlights the need for certain packages in techniques of production and management.

Pickle & Abrahamson (1976) discuss at length small business and its environment, franchising establishment pattern, management control, merchandise control marketing aspects for the small business product and service and the overarching legal considerations and government control and assistance. Each theme has been dealt with appropriate case studies to highlight how distinct small businesses are and the operational issues therein. The authors follow that the title of manager and management would include reference to the person who is in charge of the small firm in the situation where the owner is also the manager or where the manager is a paid employee.

Filley & Adalg (1978) characterize three different pattern of organization on the basis of two staged study (1975, 1978) surveying over 400 Chief Executives of manufacturing firms and 85 retail firms which were categorized as small and medium enterprises. The analysis suggested that three patterns of organization emerged – craft
firms, promotional firms, and administrative firms varying in degree with respect to objectives, policy, leadership formality, stratification of management levels and the pattern of growth.

Dasgupta (1983) has recommended the establishment of small scale and cottage industries in the North-eastern region of the country. He suggested that if labour intensive small scale industries are established, they will provide some alternative to multi cropping pattern in the region.

Sadhak (1986) argues about the disparity between the regions creates regional imbalance employment and income generation. The concentration of industries and income opportunities in developed areas can create social tension in the backward regions. He observed that the Indian problem is not only slow growth but also the inter-state disparities in development, particularly in industrial development. The studies in general indicated that the state economy can be improved only through the government policy and incentives in designated backward areas. He has taken Aurangabad as a case study area where the social indicators like education, health service, and availability of road plays a major role in changing quality of life of people as well as growth and development of the district.

Sharma (1987) lays emphasis on problems of industrial development of North Eastern region. They are transport, marketing, labour and entrepreneurship. He further stated that, the locally available raw material should be utilised effectively so that the people of the region can get employment and some amount of income can be generated. It is also concluded that the pace of industrialisation in north east region is very slow.
Pattanaik (1988) studied the small engineering units in Karnataka and concludes that the units mainly suffer from financial constraints which lead to inadequate and traditional technology, lack of professionalism and underutilization of installed capacities. He opines that if the right policy measures are undertaken by the Government, then it would speed up the growth process.

Hamid (1989) made an extensive study of the economy of Jammu and Kashmir and explored the possibilities of setting up industries. He states that since small scale industries are labour intensive requiring less capital and having a shorter gestation period, their establishment in the state will be much easier.

Khan & Manopichetwattana (1989) studied a sample of 50 Texas manufacturers (with less than 500 employees). The study used cluster analysis and identified two groups of innovative and three groups of non – innovative firms. The innovative firms groups are Young Turks, Blue chips while the non innovative firms were Silver Spoons, Striving Stoics and Kismets.

Sharma (1989) has emphasized on the impact of national level Development Financial Institutions (DFIs) on the industrial economy of India. He recognizes that the contribution of different Financial Institutions (FIs) in boosting up the industrial sector. He has given emphasis more on socio economic impact of those institutions. He stated that some of the major problems arise in those institutions since the volume of work was very large.

Khanka (1990) studied about the small-scale entrepreneurs of Kumaun division of Uttar Pradesh regarding their emergence, performance and problems. He has laid stress
on the policy implications to provide liberal incentives and concessions to the entrepreneurs to encourage, promote and strengthen the small units in backward areas.

Reddy (1991) has highlighted the problems of small and tiny industrial units of Prakasam district of Andhra Pradesh. It is learnt that they have been suffering from many problems on several fronts such as production, labour, marketing, finance, etc. He suggested that the borrowing should make cheaper by lowering the rate of interest on short term loans. He also gives emphasis on the re-orientation programmes at district level so that entrepreneurs can get latest information.

Sikka & Kumar (1991) made a critical study on the Hosiery industries in Punjab. It was observed that the hosiery products are well marketed in local areas and outside the state. Further they conclude that the process of development in industrial sector was quite impressive one and there is huge export potential.

R. Gedam (1992) dealt with industrialisation, which should be equal in every part of the country. He opines that each big city is having facilities for industrial activities leaving the rural part of the country. Further he emphasises on the development of industrial sector in rural areas also. He concludes that healthy expansion of the cottage and small industries depends upon factors like provisions of raw materials, cheap power, technical advice, organised marketing and safeguard against the intensive competition from large manufacturers.

Levy (1993) reports the results of field survey conducted in Sri Lanka leather industry and Tanzanian furniture industry and the perception of impact of financial, regulation, technical, market input constraints on these two industries. He concludes that lack of
access to finance emerges as the binding constraint for smaller, less established firms in Sri Lanka. For Tanzania regulatory and tax constraints appear the largest obstacles to industry growth.

Mali & Bandopadhyay (1993) in their study of the industrial development of the small scale sector in the region have revealed that the development of this sector has not been very satisfactory. Even in the state of Assam, where development started very early the industrial performance is not very satisfactory. During the research it was found that the credit flow to this sector was also very low. They have concluded that for the proper development of the small scale units in the region, there must be collaborative efforts among the entrepreneurs, the Government, promotional organizations, banks and financial institutions.

Sharma (1993) had given emphasis on the industrial development of North East India which is lagging behind in respect of industrialisation mainly because of location disadvantages and infrastructural deficiency. He also highlighted role of industrial estates in promotion of small industrial undertakings in Assam. He attempted to interlink the North Eastern States, as the industrial development issue is common to them. It was observed that still units in the state are not full interdependent and complementary to each other and government has not made any common service centre for those industries.

Storey (1994) in his study reveals that overview of bank lending to small and medium sized enterprises highlights a number of assumptions that underpin the research literature, asymmetric information, agency issues, higher objective risk in lending to small firms, costly monitoring, competing banks, the variability of entrepreneurs with
regard to their ability, honesty and motivation, and the view that entrepreneurs gain from increased project valuation which banks gain only form repayment.

Thomas (1994) states that there is a need for promoters of small-scale industrial units to be educated in area of general management. Moreover special attention must be paid to provide training in the fundamentals of marketing management.

Cressy (1995) in his study tries to analyse the bank borrowing decision of small firms creating a tradeoff between borrowing (which increase owners equity) and control (bringing the business under the control of the bank). The control aversion deters owners from bank borrowing and make a self funded business enterprise. Using dynamic analysis Cressy distinguishes Movers and Stayers where the distinction is determined by their preference parameter to grow through time (Movers) or to remain stationary (Stayers). Movers increase borrowing through time to finance expansion and ultimately become high profit enterprises. The stayers, on the other hand, would be concerned to borrow little and remain low profit throughout their lifetime.

Deolankar (1996) has analysed in depth about the main dimensions of the new industrial policy, encouragement to foreign competition and public sector reforms. He has commented on the ideal role of government in industrial development. He also points out the rural industrialisation, problems of handicraft industries, problems of revival of sick units, unemployment in rural areas, etc. He has also highlighted the changes of globalisation in the Indian context.

Panda (1996) in his paper has highlighted the dearth of entrepreneurial culture among the native people of Arunachal Pradesh with special reference to Lohit District. He is of
the opinion that availability of easy money against lending of trade and industrial licenses to proxy non-local hierarchy, extended family, liquor addiction, community based life and community ownership of land and asset etc present in the region dampen the private initiative which is crucial for entrepreneurship development.

Malgawakar (1997) in his study says that the industrial estate alone cannot overcome the vocational disadvantages. The infrastructure facilities are either very weak or nonexistent in rural areas. In urban areas with necessary industrial climate and infrastructure facilities, the growth of industries is relatively faster.

Mathew (1997) posits that developing countries of Asia can draw lessons from India which has the longest history of small enterprise development policy in Asia as well as the world at large. He also argues that the development policies in most Asian Countries have an erstwhile halo of Soviet Planning. The prerequisite must be government as a facilitator and planning should be more pragmatic than ornamented.

Khanka (1998) in his study has observed that the development of Small scale industries in Assam is low level because of inadequate infrastructural facilities, problems of finance, marketing and insurgency. Therefore, for industrial development, Government should create infrastructural facilities like transport, communication, power, energy etc. Moreover, state level techno- economic survey should be carried out to explore possibilities for developing specific industries successfully. Local people should be motivated to promote entrepreneurial spirit in the region. Government should take strong initiatives to curb insurgency in the region so as to make a congenial climate for industrialisation.
Behera & Mantaw (1998) studied the entrepreneurship among the Khamti community of Lohit district of Arunachal Pradesh. The main finding was that the entrepreneurial activities among the Khamtis are confined to a few families.

Salim (1998) in his study tries to proves that in most categories of industries there is more number of high performing units followed by moderate performing units. High performing units have more market orientation than low performing units. There is a strong positive correlation between market orientation and business performance.

Rajendran (1999) made a study to identify institutional assistance for the development of small scale industries and the problems faced by these industries in Kerala. He has concluded that the greatest problem faced by the small entrepreneurs was non availability of adequate financial assistance, acquisition of raw material, marketing of products and technological and administrative problems. There are complicated procedures in availing loans from financial institutions and there is no coordination between the promotional institutions and government agencies.

Entrealgo, et al., (2001) examines the influence of organizational context of firm on entrepreneurship. The variable of age, size, resources and competitive strategies are studied to show relationship to entrepreneurship. Entrepreneurship is seen from the perspective of innovation, proactiveness and risk taking. The results of this study suggest that there is a positive relation between availability of resources and entrepreneurship. The use of differentiation develops a greater degree of entrepreneurship than cost leadership.
Gomes (2001) posits that much can be learnt from the Italian model of clusters, more specifically specialist service centre (SSC) providing companies with focused technological services. The Italian model has a multiplier effect causing spontaneous local developments which in term create international competitiveness.

Hill (2001) in his study of Indonesian SME policy framework has pointed out the areas in which government policy has worked and has not worked. He points that the role of policy need not take the form of a permanent institutional commitment. He cites the government scheme of more emphasis on access and outreach rather than on regulation and price.

Park (2001) tries to explain the development of SME in Japan and Taiwan as opposed to SME in Korea even though these countries had similar histories, culture and position. He concludes that state power, and control of the state by different political parties would change SME politics. He concludes that financial policies in East Asia were the working of political and economic choices of modernization by political conditions.

Nalassama (2002) states that the SSI units have multiple problems in areas of capital, lack of knowhow, inadequate marketing potentially etc. In spite of several weaknesses and problems, SSIs are promoted and developed because of their social and economic contribution.

Chobin (2002) has made an attempt to examine the industrial scenario and identify the factors which are responsible for slow growth of industries in lower Subansiri and Papumpare district. Further he has attempted to identify the industries based on locally available resources, which have potentiality for development in both the districts. It is
concluded that in spite of government supports the local industries did not grow to a large scale.

Nugent & Yhee (2002) conducted a study on evolution of SME in Korea since 1975. It examines the changing eco importance of SMEs in the country. The study found that increasing technical sophistication due to open economy threatening the SMEs. The author suggest for a public provision of technological information and training on a cost effective basis.

Doji (2003) emphasises on the impact of SSI units in social and economic life of tribal people of Along Circle. Moreover, her emphasis is on the problems faced by existing units as infrastructure bottlenecks, lack of government support, etc.

Mambula (2004) in his case study profiling, comments that the internal & external factors are usually studied as being independent of one another. For the growth & development of SMEs at all times, they must be seen as interdependent. Mambula identifies major internal constrains as in adequate info about the market and others opportunities, problem of organization planning & poor management, shortage of financial capital and the negative aptitudes of personnel towards work.

Siu & Liu (2005) in their study of 307 SMEs in China evaluate the marketing strategies of Chinese enterprises to counter the direct competition from Hong Kong SMEs and Gaundaong SMEs. The study posits that higher performing Chinese SMEs appear to be market oriented and customer driven enterprises.

Honjo & Herada (2006) studied SME policy, financial structure and firm growth in Japanese manufacturing firm. The study found that policy interventions and cash flow
have an impact on growth of younger SMEs. Firm growth is measured by 3 variables vis-a-vis employment assets (tangible fixed assets) and sales growth. Their findings suggest that SMEs rely heavily on internal investment sources for employment and asset growth. The high debt ratio has found to be a constraint in raising more funds from external sources. However higher debt asset ratio has positive effect on sales growth. The results are in agreement with Lang et al (1996) Hesmati (2001). The results imply that firms with proper growth opportunities may be able to utilize leverage to expand their sales even though they do not raise capital firm growth (Bartlett 1994) growth of sales or turnover growth.

Srimannarayana (2006) in his study of 41 small business units in Jharkhand (India) tried to enumerate the human resources practices prevalent in small business. The study revealed that HRM is present in small business and are characterized by informality and flexibility. He argues that a formalized performance appraisal system for motivating employees must exist at the SMEs for motivation and suggests that monetary incentives must be linked to employee performance too.

Prasain (2006) examines the requirements of small-scale industries in Manipur. He states that the Government has a decisive role to play in the growth of entrepreneurship. Government must develop infrastructure facilities, provide policy support, adopt promotional measures and also help in creating entrepreneur-friendly environment. Infrastructure factors, particularly power and transport, are crucial to the growth of entrepreneurship and industry.

Moyong (2007) studies that development of SSIs in the state is much below the desired level in comparison to other states of the country. It was also noticed that after
establishment of DICs, the state has witnessed the momentum of development in SSIs. The study concludes that there are inherent weaknesses in the working of DICs.

Reddy (2007) examines Fiji SMEs and the problems they face. The result form the study reveals that lack of finance and appropriate skills are major impediments to small business growth and development.

Singh et al. (2007) highlight the financial constraints faced by the small firms. However, the firms show reluctance to utilize the external funding. This stands in the way of adoption of latest technology by the firm.


Navdeep & Sharma (2009) in their paper, evaluate that although technology has evolved the I.T infrastructure within the SMEs has changed little. The SMEs lag behind larger organizations primarily because of this constraint. The authors comment that the usage of higher technology demands more resources which are not available with the SMEs.

Parab & Jain (2009) point out that many firms use the internet to communicate with the suppliers and customers only as a channel for maintaining a business relationship. They highlight the importance of E Commerce in potentially eliminating some costs and
constraints consequent on phone, letter and fax. They posit that a developing country can become industrialized and modernized if it extensively applies the I.T.

Delgado, et al. (2010) examines the role of regional clusters in regional entrepreneurship and comments on the district influences of convergence and agglomeration on growth in numbers of state-up firms as well as in employment in these new firms. The article focuses how cluster environment impacts growth rate of entrepreneurship. The article concludes that there is strong evidence that presence of a strong cluster surrounding a region – industry accelerates the growth in start-up activities.

Dhiman & Rani (2011) studied the status of agro based units such as rice mill industry in the Patiala district of Punjab and analyzed the various problems being faced by them. Various problems regarding lack of financial assistance, improper marketing channel, high degree of breakdown of finished products and non availability of research lab for quality control have been highlighted.

Sharma (2011) in her study of exporting and non exporting firms in Haryana finds that the finance problem is largely faced by non-exporting units. Exporting units have to face the problems like executive inefficiency, technological lag, problems relating to export etc. In addition to this, terms of payment is also a major problem which is equally faced by both exporting and non-exporting units.

Osotimehin, et al (2012) in the course of the investigation, discovered that the problem of establishing small and medium ventures include the lack of capital, operating equipment, unhealthy business environment.
Drema (2013) has examined about the management problems faced by entrepreneurs who are operating in micro, small and medium enterprises. The aspect of marketing and finance in MSMEs as well as the consultancy services available for the MSMEs are also being studied. The study finds that entrepreneurship culture is still in the nascent stage in the state and concerted efforts from all the sectors are needed for inculcating entrepreneurial spirit among the youth of the state. The study suggested that various schemes and policies must be implemented properly, so that it will attract more people to start enterprises.

Sharma & Parida (2014) had reviewed the entrepreneurial scenario in the state after the commencement of MSME Act 2006. The research analyses the income and employment generation capabilities of the SME units in the district. The study highlights that most of the enterprises are established in the urban or semi-urban areas in the district. And only a few numbers of units are working in the Industrial Estates of the state.

1.4 Significance of the Study

Economic growth and industrialisation are responsible for the development of regions, states and nations. Undeniably the SME sector has become a very important player in the growth and development of a country. This is especially true in case of an over populated and low capital intensive country like India. The SME absorbs the abundant labour force and with minimal capital generates maximum output. The Governmental plans and programs hence assign a special place to these enterprises, with specific policies for the development of these sectors. However, a darker reality is also associated with such enterprises. Unless these SMEs are healthy, job creation and
employment generation become myths. This is because of the high mortality rates associated with small business. The reasons are many and diverse. The sickness in these industries spells disaster to the economy and also the policy makers.

SMEs are self employment generating as well as serve as triggers for newer enterprises. These utilise the rich resource base of the state as well as the human capital which otherwise would remain idle. In absence of large scale industries in the state focus naturally shifts to the micro, small and medium enterprises. However the micro enterprises are more need fulfilling than encouraging entrepreneurial talent. Micro enterprises are reactive to the environment and a quick mushrooming of such enterprises would also see their quick decay. As such the onus of creating a sound entrepreneurial culture lies with the small and medium enterprises. Over time a lot of studies have tried to address industrialisation and SSIs at national level and a few have focused on Arunachal Pradesh. These were micro level studies which looked at the SSIs strictly from the perspective of their industry connotation. The present study looks at small and medium enterprises as an incubator of entrepreneurial talent aided and abetted by strong enabling policies. Hence this study may be considered a pioneering work in the study of small and medium enterprises in Arunachal Pradesh, especially after the MSMED Act, 2006.
1.5 Objectives of the Study

The research is carried out with the following objectives;

(i) To examine the role and growth of SMEs in Arunachal Pradesh.

(ii) To figure out the performance of SMEs; in terms of, employment, organisation, HR practice, IT use and marketing.

(iii) To analyse the impact of government policies on growth and performance of SMEs in the State.

(iv) To examine the Marketing Orientation of SMEs in Arunachal Pradesh. To suggest measures for promotion and sustenance of SMEs in the state.

1.6 Research Hypotheses

The study is undertaken with the following hypotheses:

H1: There is no significant difference between sex and rural urban SMEs

H2: There is no significant difference between urban rural set up and classification of units

H3: There is no significant difference between urban rural set up and competitive tactics used.

H4: There is no significant difference between generation of the entrepreneur and educational level of the entrepreneur.
H5: There is no significant difference between generation of the entrepreneur and employee strength.

H6: There is no significant difference between classification of the units and employee strength.

H7: There is no significant difference between manager-owner dichotomy and employment.

H8: There is no significant difference between urban rural set up and employee strength.

H9: There is no significant difference between generation of the entrepreneur and MO.

H10: There is no significant difference between sex of the entrepreneur and MO.

H11: There is no significant difference between urban rural set up and MO.

1.7 Research Methodology

To develop an understanding of SMEs, multiple methodological approaches are pursued; a mixed method using more than one method in approaches is used in collection of data, analysis, comparison and integration of results while conducting the research (Mambula, 2004). The approach used by the researcher hence was a mixed method and multi-site strategy of 76 small and medium enterprises of Arunachal Pradesh. With such a strategy, the researcher could gain accurate information as well as reduce the level of personal bias. As part of the multi method approach, qualitative data as well as quantitative data are used. The multi-site strategy involved visits to
homogeneous enterprises, and not single firm or sector, to understand how these vary in 
the organization typology and conduct of business.

For the purpose of the study small and medium enterprises operating in Arunachal 
Pradesh were considered. These units were purposively selected from 9 districts of the 
state. The rationale of choosing 9 districts stemmed from the fact that out of the 17 total 
districts of the state, SMEs were present in these 9 districts only. Since the study, inter-
alia, took a look at the enabling environment of state and national policies, only those 
enterprises which featured in the Entrepreneur Memorandum (EM) II list of the District 
Industries Centre are chosen. The EM II is a discretionary provision provided for in the 
MSMED, 2006. However, even this discretionary proviso meant that such units have 
complied with all requisite formalities to be considered as permanently registered 
enterprises.

The enterprises are chosen which are operational for the last ten years and above. This 
time frame is considered as essential by the researcher, since these enterprises have now 
entered into a stable stage in its life cycle by merit of its operations.

The problem faced by the researcher in this regard was that, the period in question 
would also include those enterprises which are permanently registered prior to 
enactment of the MSMED Act 2006. Hence the operational definition for selecting 
SMEs was based on Plant and machinery investment for manufacturing and service 
firms as per the MSMED,2006 and includes those enterprises which are permanently 
registered prior to 2006, with book cost of Plant and Machinery Investment of greater 
than Rs. 25 lakhs.

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Sample Size

The population size being finite, out of the 120 SMEs that applied for Employee Memorandum II was considered. However it was found that out of these 27 were found to have been operational for less than ten years, which falls out of our operational definition of ten years of existence. Out of the remaining 93 units a sample size needed to be selected. The Krejice and Morgan (K-M) model is used to determine the appropriate sample size assuming the alpha of 0.05 and a degree of accuracy at 0.05. The appropriate sample size was found to be 76 units.

Data Collection

Secondary data were sourced from various books, theses and dissertations. Journals of repute specifically for research in small business like the International Small Business Journal, The Journal of Business Venturing, Journal of Small Business Management, were consulted. The mainstream journals like Asian Survey, Economic and Political Weekly, Journal of Management Studies, Journal of International Marketing were consulted for research studies connected to SMEs. The State government publications like statistical abstracts, gazette notification, state gazetteer of Arunachal Pradesh, were reviewed for themes of administration and economy, Gross domestic product and industrial growth. Major All India surveys like Annual Survey of Industries, Economic Census, National Sample Surveys, census of sub sectoral growth of MSMEs were consulted. Thematic reports like Annual Reports of RBI, Ministry of Micro, Small and Medium enterprises, reports of Knowledge Commission of India, census data were also consulted for relevant data. Working papers of World Bank, International Labour Organisation relating to small and medium enterprises were also thoroughly consulted as a secondary data source.
The researcher also attended and participated in national, regional and state level conferences and seminars to acquaint with various micro level research data. The regional Indian Institute of Entrepreneurship, Guwahati was visited to consult major reports associated with growth and development of industries in the entire North Eastern Region. Since agro based tea industries were found to be a component in SME in the state and they had affiliation to the Tea Auction Centre of Assam, the researcher found it relevant to visit the state chapter of Tea Auction Board located in Itanagar. Visits were also made to the State Archives, Directorate of Industries, Directorate of Economics and Statistics. The websites of NEDFi, NEC, were also consulted as a secondary source. Further the researcher also visited the DICs of the 9 districts where small and medium enterprises were located to collect data relating to registration, working status of small and medium enterprises. It is to be mentioned here that computerized bibliographical databases/repository like JSTOR, Research Gate, Google Scholar, Scopus, Shodh Ganga were also consulted for literature review and relevant secondary data.

Both structured and non-structured questionnaire were used to collect the primary data. During the first year of research a pilot study was conducted in 3 districts of Arunachal Pradesh viz. Papumpare, Lohit and East Siang. Based on the responses, the initial questionnaire was redesigned and key questions added to have a robust response in the final administration of the questionnaire. Accordingly the questionnaire was divided into two segments. The first segment incorporated:

(i) Profile of the SME, including name of the proprietor, nature of ownership, location, and registration details.
(ii) Profile of the entrepreneur, age, gender, whether first generation, whether trained by under government institute,

(iii) Profile of the manager, if any and the reasons of having a manager, average tenure of the manager in the SME,

(iv) DIC affiliation, district details and urban – rural set up

(v) Audit details, whether carried out and nature of audit

(vi) Type of work force, number of employees, skill levels of employees, whether permanent or rotational

(vii) Human Resource dimension of the SME

(viii) Information use aspects in the SME

(ix) Marketing problems in the SME

Data Analysis and Interpretation

The subsequent segment of the questionnaire was devoted to finding out the marketing orientation of the SME. Marketing Orientation measure (MARKOR) is taken from the scale developed by Kohli, Jaworski and Kumar (1993). The test uses a five point Likert Scale to analyze the extent of market orientation by enterprises ranging from 1 to 5. The Likert Scale items are categorized into three key segments, Intelligence generation, Intelligence dissemination, Responsiveness and Integration. Accordingly a set of 20 questions evolve. Some of the questions were reverse coded questions and these were handled before final interpretation. The first six questions relate to intelligence generation and have been defined as the collection and assessment of both customer needs/preferences and the forces (i.e., task and macro environments) that influence the development and refinement of those needs. The next five scale items relate to Intelligence dissemination. The Intelligence dissemination refers to the process and
extent of market information exchange within a given organization. The final nine items correspond to responsiveness. Responsiveness is action taken in response to intelligence that is generated and disseminated. On the planning side, the concern focuses on the degree to which marketplace needs play a prominent role in the assessment of market segments and development of marketing programs. The MARKOR allows one to assess the degree to which an organization is market-oriented, rather than force an either/or evaluation (Kohli, Jaworski and Kumar, 1993). Reliability test and validity tests have been carried out for the suitability of the test instrument for the context of Arunachal Pradesh. The Pearson coefficient was calculated for each of the scale items and all the individual items in the test instrument were found to be valid. The Cronbach’s Alpha is calculated at 0.881 which indicates a high level of internal consistency for our scale with this specific sample. Therefore the scale is reliable.

Data was analyzed using descriptive statistics like frequency tables, bar diagrams etc. Appropriate tests of significance like chi square test, Mann Whitney test and Kruskal Wallis tests were applied keeping in mind the sampling technique used. In this regard SPSS software was used for analysis and interpretation. With regards to the marketing orientation, data was transformed and the median response was calculated for each of the three groups. This data was presented as bar diagram. Here too tests of significance were carried out using appropriate statistical techniques.

1.8 Profile of the Study Area

The name of the state Arunachal Pradesh is of recent origin. The word Arunachal ‘is combination of two words viz “Arun” and ‘Achal’ Arun means sun or the rising sun; and Achal means border or edge, the name of this state was not derived from any
previously existing name. Arunachal Pradesh (Pradesh means province) is a new name giving apply to the magnificent mountainous region of the extreme northeast extending over the eastern Himalayas, where the sun in its diurnal motion first rises over India.

This province had to go through series of constitutional process and development to acquire the present status, which may be traced back to early second decade of 20th century. In 1914, it was decided by the Government of India that the Assam Frontier Tracts Regulation of 1880 would extend to some hill tracts inhabited by the tribes of what is now known as Arunachal Pradesh. These tracts were separated from the then Darrang and Lakhimpur districts of the province of Assam to form the North East Frontier Tract. In 1919, Sadiya Frontier Tract and Balipara Frontier Tract, was carved out. In 1937, these three frontier tracts came to be known collectively as the Excluded Areas of the province of Assam. A new administrative unit called the Tirap Frontier Trade comprising certain areas of the Lakhimpur Frontier tract and the Sadiya frontier tract came into existence in 1943. In 1954, all these Frontier tracts excluding some plains portion which were transferred to the administrative jurisdiction of the Government of Assam constituted the North East Frontier Tract (NEFT). From 1948, it was placed under direct administration of the Union Government. In 1950, this territory was included in the 6th Schedule to be constitutionally it was a part of Assam and specially administered by the India. The Governor of Assam acted as an agent of the president of India.

In 1954, NEFA was renamed as North East Frontier Agency (NEFA) with six frontier Divisions: Kameng Frontier Division, Subansiri Frontier Division, Siang Frontier Division (Daporijo sub-division, Along sub-division, Pasighat sub-division) Lohit
Frontier Division and Tuensang Frontier Division. In 1957, the Tuensang Frontier Division was included from NEFA to join Nagaland. The remaining five divisions were converted into districts during 1964. The Central home ministry took over NEFA administration in 1965. This frontier province which was known as North East Frontier Agency (NEFA), since 1954, was named Arunachal Pradesh by Mrs Indira Gandhi, the then prime minister of India on 20th January 1972.

Arunachal Pradesh is situated in the north-eastern tip of India approximately between the latitudes 26°28'E and 29°30’N and longitudes 90° 30’ E and 97°30'E. It shares boundary on the north by China on the east by Myanmar, on the south by Assam and Nagaland and on the west by Bhutan. The state has about 1630 kms long international border; 160 km with Bhutan, 1030 kms with China and 440 km with Myanmar. Arunachal Pradesh occupies an area of approximately 83,743sq.km inhabited by 1383727 persons with a sex ratio of 938 females per 1000 males. A total of 7,05,158 person constituting 64.22 percent of the total population belong to the scheduled castes. The state is thinly populated compared to other areas; the density of population per sq km being 17 persons is quite low as compared to the country’s population density of 324 person per sq m. Barring only 17 towns, the entire area is rural the rural population of 8,70,087 constitute 79.24 percent of the total population. The state has 26 different tribes and 110 sub-tribe speaking as many as 42 different dialects. The state has achieved a literacy rate of 65.38 percent in 2011.
1.9 Districts Studied

Presently the state is having 21 districts. However, the research is confined to 9 districts (prior to notification of new districts). These 9 districts have SMEs in the state. The districts are outlined herewith;

1.9.1 Papum Pare District

The Papum Pare District with its Headquarters at Yupia was created under the Arunachal Pradesh (Re-organization of District) Amendment ordinance date 22nd September, 1992 by carving out few Circles from Lower Subansiri District to become 12th District of the state. The district is bounded by East Kameng District in the west, Kurung Kumey and Lower Subansiri in the north and by Assam in the east and south. The state capital Itanagar is situated in this district. The district has an area of 2875 sq. km. with total population of (2011 Census)176573 with a density of population of 35 per sq. km. the total number of scheduled Tribes and Scheduled Castes living in the district is 69007 and 1397 souls respectively. The Nyishis are the original inhabitants of the district. The district is having the literacy rate of 79.95 percent. The sex ratio is 980 female per 1000 male.

Itanagar and Sagalee are the two Sub-Divisions. The district is administered under eleven Administrative Circles namely, Balijan, Itanagar, Naharlagun, Doimukh, Toru, Sagalee, Leoporiang, Mengio, Kimin, Tarasso and Banderdewa.

1.9.2 West Siang District

The area lying between the Siyom river and the Dibang, which is on the northern frontier of Assam are inhabited by the Adis and the Galos. They are administered under different names, such as Abhor Hills, Siang Frontier Division, and erstwhile Siang 31
District. The Siang district got divided into two districts remained the Headquarters of the West Siang district. It is bounded by Upper Siang District on the west, China on the north, Upper Siang and East Siang district on the east. The district has an area of 8325 sq. km., and a population of 112274. The scheduled Tribes and Scheduled Castes living in the area are 84922 and 379 respectively. With a population density of 13 person per sq. km. the literacy rate of district is 66.46 per cent and sex ratio 930 per 1000 males. The tribal groups, such as Galos, Adi-Ramos, Pailibos, Boris, Bokars, Membas and Khambas constitute the population of the district.

The district is having six administrative sub-Divisions namely, Along (now Aalo), Rumgong, Basar, Likabali, Yamcha and Mechuka. There are twenty administrative circles in the district namely, Mechuka, Monigong, Pidi, Payum, Tato, Kaying, Darak, Kamba, Rumgong, Jomlomobuk, Liromoba, Yomcha, Along, Tirbin, Basar, Daring, Gensi, Likabali, Kangku and Bagra.

1.9.3 East Siang District

The erstwhile Siang district was bifurcated into two separate districts, namely East Siang and West Siang on 1st June, 1980. Pasighat which is one of the oldest towns of the State is headquarter of East Siang district. The district is bounded by Upper Siang on the north, Assam in the south, Lower Dibang Valley in the east and West Siang in the west. The total geographical area of the district is 3322 sq. Km. As per census 2011, a total of 99214 persons live here. The literacy rate is 72.54 per cent and the sex ratio is 979 per 1000 males. The density of population is 22 persons per sq. km. The Adi, Pasi, Padam and Minyong and the Mishing are the principal inhabitants of the district. The district is administered under five sub-Divisions namely Pasighat, Mebo, Ruksin, Nari

1.9.4 Upper Siang District

The Upper Siang District with it s headquarter at Yingkiong became the 13th district of the state which was formally inaugurated b His Excellency, the Governor of Arunachal Pradesh, Shri Mata Prasad on 12th May, 1995. The district was created by carving out from East Siang District. It is bounded by China on the north, East Siang district on the south, Dibang Valley and Lower Dibang Valley districts on the east and West Siang district on the west. It has an area of 6590 sq. km. The district has a population of 35320 persons living in the district. The Schedule Tribe and Scheduled Caste population of the district is 26094 and 124 respectively. The district is having a density of population of 5 and literacy rate of 59.99 per cent. The sex ratio is recorded as 889 females per 1000 males. The major tribes in the district are the Adis comprising of Pasi, Padam, Karko, Panggi, Ashing, Shimong, Komkar, Tangam and Millang. The other tribes like Idus, Membas also constitute the main inhabitants of the district. The district is administered through three sub-divisions, namely Yingkiong, Mariyang and Tuting. There are altogether eleven Administrative circles namely; Tuting, Migging, Paling, Gelling, Singa, Yingkiong, Jengging, Geku, Kataang, Mariyang and Mopom.

1.9.5 Lohit District (Undivided)

The whole mountainous stretch long the Upper Brahmaputra region, inhabited by the Mishmis came to be known as Mishmi Hills since 1948. In 1954, it was renamed as Lohit Frontier Divisions and was declared district in 1964. Tezu is the district
headquarter since 13th August 1952. The district has an area of 2802 sq.km. and is bounded by Lower Dibang Valley district in the north, Anjaw district in the east, Tinsukia district (Assam) in the west and Changlang district in the south. Total of 145726 are living in the district as per 2011 Census; (of which 67150 are male and 57936 female). The total number of scheduled tribes and scheduled caste people living in the district is 40552 and 1796 respectively. The density of population is accounted at 13 per sq. km. The literacy rate and sex ratio of the district are 68.18 percent and 912 male per 1000 female respectively.

The Taraons (also called Digaru Mishmis), the Kamans (also called Miju Mishmis), Khamptis and Singphos are the inhabitants of this district.

Tezu and Namsai are the two Sub-Divisions. There are all together eight Administrative Circles, namely Sunpura, Tezu, Wakro, Chowkham, Namsai, Piyong, Lekang and Lathao. Parshuram Kund – the famous Hindu Pilgrimage is located in this district under Wakro Circle.

1.9.6 Changlang District

The Changlang district with its headquarter at Changlang was created on 14th November, 1987 by carving out from Tirap district. Shri R.D. Pradhan, His excellency, the governor of Arunachal Pradesh inaugurated the 11th district of the state. The district is bounded by Lohit district in the north, Myanmar in the south and east, Assam and part of Tirap district in the west. The total geographical area of district is 4662 sq. km, and the population according to 2011 census is 148226. The literacy rate as recorded is 59.80 percent. The sex ratio is accounted at 926 females per 1000 males and density of
population being 27 persons per sq. km. The Tangsas (with its sub-groups like Moklum, Yugli, Longchang etc), singphos, and lisus are the main inhabitants of the district. The district is administered through four sub-divisions, namely Changlang, Jairampur, Miao and Bordumsa. These sub-Divisions are further strengthened by thirteen Administrative Circles, namely Khimiyang, Changlang, Yatdam, Namtok. Manmao, Nampong, Rima-Putok, Jairampur, Vijoynagar, Miao, Kharsang, Diyum and Bordumsa.

Table 1.1: District wise distributions for population, growth rate, sex ratio, population density, literacy rate and urban population of Arunachal Pradesh (as per population totals of 2011 census).

<table>
<thead>
<tr>
<th>Sl.</th>
<th>District/State</th>
<th>Population</th>
<th>Percentage</th>
<th>Decadal growth rate 2001-2011</th>
<th>Sex ratio (females per 1000 males)</th>
<th>Literacy rate</th>
<th>Urban population</th>
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<tr>
<td>1</td>
<td>Tawang</td>
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<td>28.40</td>
<td>714</td>
<td>59.00</td>
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<td>West Kameng</td>
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<td>836</td>
<td>67.07</td>
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<td>15932</td>
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<td>3</td>
<td>East Kameng</td>
<td>78690</td>
<td>37.62</td>
<td>1029</td>
<td>60.02</td>
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<td>18350</td>
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<td>980</td>
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<td>984</td>
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<tr>
<td>11</td>
<td>Dibang Valley</td>
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<td>813</td>
<td>64.10</td>
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<tr>
<td>12</td>
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<td>928</td>
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<tr>
<td>13</td>
<td>Lohit</td>
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<td>938</td>
<td>65.38</td>
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</tr>
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</table>

Source: Census of India, 2011.
1.9.7 Tirap District(Undivided)

The Tirap district with its headquarter at Khonsa is spread over an area of 2362 sq. km. It is bounded by Assam in the north, Nagaland in the west, Myanmar in the south and Changlang district in the east. In 1943, this region, which was created as Tirap Frontier Tract was re-designated as Tirap district on 1st September, 1965. The population as per 2011 census is 111975. The density of population of the district is 43 per sq. km, which is highest in the state. The literacy rate and sex ratio are 52.19 percent and 944 females per 1000 males respectively. The Noctes and the Wanchos are the principal inhabitants of the district. There are four sub-divisions, namely Khonsa, Deomali, Longding and kanubari. There are ten Administrative Circles, namely Namsang, Khonsa, Kanubari, Longding, Pumao, Panchao, Wakka, Laju, Dadam and Soha. The following chart shows the districtwise distribution for key demographic parameters.

1.10 Limitations of the Study

Government plans and programs have been continuous in terms of development of small business. However there is a lack of consistency in the manner in which these SMEs have been nomenclature. The SMEs have earlier been dubbed as SSI and tiny sector priorities as opposed to their larger counterparts in terms of their capital investment. In multiple times and in multiple policies these investment limits have been increased to widen the base for defining these enterprises. Medium enterprises, in this manner, are the newer enterprises by such a definition. The concept of service enterprises is also fairly new. This trend of re-naming and re- categorising industries creates difficulties in terms of official records. It was found that discretionary provisions introduced in the MSMED, 2006 became mandatory to avail government schemes.
Many DICs are yet to compile the full list of their existing enterprises and hence the researcher had to work with data for those enterprises which had filled up the Entrepreneur Memorandum II. In this manner there could be some industries which were left out from the study primarily because these have not cleared the registration formalities as per the MSMED, 2006.

The topic of research has some inter-related issues especially from policy perspective. Hence some repetitions of programs and policy recur in terms of Chapter II and Chapter III. However these repetitions are contextual rather than analytical.

Some of the limitations stemmed from the field survey are given:

(i) The research topic was vast in nature and though due care was taken to incorporate all aspects of the SMEs; the researcher could not incorporate all elements. Hence the study cannot be said to be an exhaustive study of the SMEs in the state. The special mention is about the financial data of the enterprises. The detail financials were not provided by most of the units and this component had therefore to be discarded.

(ii) The case against multiple implementing agencies can be also highlighted here. There is a mismatch between records at district and state level. These are either not updated or not compiled. With the introduction of new programs, older records are no longer preserved for reference.

(iii) At the entrepreneurial level many entrepreneurs were reluctant to divulge information about the subsidy and incentives received.
1.11 Scheme of Chapterisation:

The research entitled “A Study of Small and Medium Enterprises in Arunachal Pradesh” comprises Five chapters;

Chapter I deals with the brief introduction on the concept of Small and Medium Enterprises in Arunachal Pradesh. A number of literatures on the subject at local, regional, national and international level have been reviewed. Apart from these, objectives of the study, hypothesis, methodology applied, limitations of the study and the chapterisation scheme are also incorporated in this chapter.

Chapter II deals with policy intervention for industrialisation and SMEs. This follows an analysis of sectoral level policy documents at three levels of decision making i.e. national level, regional level and the state level. Accordingly Policy resolutions since independence like IPRs, regional level policies - NEIP and NEIIPP, Arunachal Pradesh government policy have been critiqued.

Chapter III analyses with the growth of industrialisation in the state. It follows from the history of modern industries which grew out of infrastructural requirements of the state. The chapter examines the growth of Small and medium units over time and also the support mechanism provided in terms of industrial estates, training programmes and the setting up of agencies to nurture enterprises in the state.
Chapter IV incorporates the findings from the field survey using appropriate statistical tools and SPSS Software. The chapter is divided into two sections comprises of Section I and II. The Section –I presents SMEs in Arunachal Pradesh with the inputs from field study. The Section –II presents Marketing Orientation of SMEs in Arunachal Pradesh.

Chapter V presents the major findings of the study, suggestions and conclusions arrived at.
1.12 References


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