

# IDEAL SCHOOL OF ENGINEERING

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Entrepreneurship & Management – 6<sup>th</sup> Sem.

## Chapter: INDUSTRIAL SICKNESS

*Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.*

*The Reserve Bank of India has defined a sick unit as one “which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1: 1 and there is worsening trend in debt-equity ratio.”*

***In case of small scale industrial unit (SSI), it is regarded as a sick unit if it has:***

- Incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and further its cumulative cash losses are equal to 50 per cent or more of its peak net worth during the last five years and*
- It has defaulted in meeting four consecutive installments of interest*

***According to the Development Commissioner, a small scale industrial unit (SSI) becomes sick if it's:***

- Capacity utilization is less than 50 per cent of the highest achieved during the preceding five years (incipient sickness),*
- Net worth has been eroded by more than 50 per cent; and*
- The unit has remained closed for a period more than six months.*

### **INDUSTRIAL SICKNESS**

- Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.*
- A sick industrial unit may be defined as one when it fails to generate surplus on a continuous basis and depends on frequent infusion of external funds for its survival.*

### **Nature of Sickness:**

*Sickness in industry can be classified into:*

- *Genuine sickness which is beyond the control of the promoters of the concern despite the sincere efforts by them,*
- *Incipient sickness due to basic non-viability of the project, and*
- *Induced sickness which is due to the managerial incompetence and wrong policies pursued deliberately for want of genuine stake.*

### **SIGNALS FOR INDUSTRIAL SICKNESS FOR A COMPANY**

*The important signals of industrial sickness are:*

- *Decline in capacity utilization*
- *Shortages of liquid funds to meet short-term financial obligations  
Inventories in excessive quantities*
- *Non-submission of data to banks and financial institutions*
- *Irregularity in maintaining bank accounts*
- *Frequent breakdowns in plants and equipment's*
- *Decline in the quality of product manufactured or service rendered*
- *Delay or default in the payment of statutory dues such as provident fund, sales tax, excise duty, employees' state insurance, etc.*
- *Decline in technical deficiency*
- *Frequent turnover of personnel in the industry*

## **Symptoms of Industrial Sickness**

Some of the important symptoms which characterize industrial sickness are listed as follows:

- *Persisting shortage of cash*
- *Deteriorating financial ratios*
- *Widespread use of creative accounting*
- *Continuous tumble in the prices of the shares*
- *Frequent request to banks and financial institutions for loans*
- *Delay and default in the payment of statutory dues*
- *Delay in the audit of annual accounts*
- *Morale degradation of employees and desperation among the top and middle management level.*

## **FACTORS CAUSING INDUSTRIAL SICKNESS**

### ➤ EXTERNAL FACTORS

The following are some of the external factors causing industrial sickness in India:

- (i) **General Recessiary Trend:** Sometimes a general depression hits industrial units. This is reflected in lack of demand for industrial products in general. An overall slowdown in economic activities affects the performance of individual projects. Improper demand estimation for the products to project lands the industrial units in difficulties.
- (ii) **High Prices of Inputs:** When the costs of manufacture are high and sales realization low, the industrial unit cannot stand in the market. This happens when the prices of inputs such as price of fuel such as petroleum during energy crisis goes up whereas the competitive forces keep down the prices of the products.

- (iii) **Non-Availability of Raw Materials:** When the supplies of raw materials are not available regularly or in good quality, the industrial units are bound to be in trouble. This often occurs in case of supply of imported raw materials.
- (iv) **Changes in Government Policies:** The industrial sickness is also caused by certain changes in policy designs of the government. These frequent changes affect the long-term production, financial and marketing planning of an industrial unit. Changes in Government policies regarding imports, industrial licensing, taxation can make viable units sick. For example, liberal import policy since 1991 has rendered many small-scale industrial units sick.
- (v) **Infrastructure Bottlenecks:** Often the infrastructure difficulty is responsible for industrial sickness. No industrial unit can survive prolonged transport and power bottlenecks.

➤ **INTERNAL FACTORS**

The following are the important internal factors which are often responsible for industrial sickness:

- i) **Project Appraisal Deficiencies:** The industrial unit becomes sick when the unit has been launched without a comprehensive appraisal of economic, financial and technical viabilities of the project.
- ii) **Industrial Unrest and Lack of Employee Motivation:** When there is labour discontent, no industrial unit can function smoothly and efficiently. When labour lacks motivation no good results can be expected and this results in sickness and non-viability of several industrial units.
- iii) **Wrong Choice of Technology:** If the promoters use wrong technology, results are bound to be unsatisfactory. Many industrial units, especially in the small-scale sector, do not seek professional guidance in installing the correct machinery and plant. If the machinery and

- plant installed turn out to be defective and unsuitable, they are bound to suffer losses and become sick and non-viable.*
- iv) **Marketing Problems:** *The industrial unit becomes sick due to product obsolescence and market saturation. The industrial unit becomes sick when its product-mix is not attuned to the consumers' demand.*
  - v) **Wrong Location:** *If the location of an industrial unit happens to be defective either from the point of the market or the supply of inputs, it is bound to experience insurmountable difficulties.*
  - vi) **Lack of Finance:** *Inadequate financial arrangements or in the absence of timely financial aid an industrial unit is bound to come to grief. It will not be able to withstand operational losses.*
  - vii) **Improper Capital Structure:** *If capital structure proves to be unsound or unsuitable especially on account of delayed construction or operation, it will result in cost overruns or unduly large borrowing and create financial trouble for the unit concerned.*
  - viii) **Management Deficiencies:** *The biggest cause of industrial sickness is the managerial inefficiency. Lack of professional management or experienced management and the existence of hereditary management is an important cause of industrial sickness. Inefficient management results in inability to perceive things in proper perspective devoid of routine considerations. Inefficient management is also unable to build up good team and inspire confidence for an organised collective effort and takes autocratic and high-handed decisions.*
  - ix) **Voluntary Sickness:** *There is some sickness which is voluntarily invited by the entrepreneurs for various motives like getting government concession or aid from financial institutions. Thus industrial sickness cannot be attributed to any single or simple cause but may be the result of a combination of number of allied causes.*

## **REMEDIES FOR INDUSTRIAL SICKNESS**

*The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realization of urgency to the solution of the sick industry problem in India:*

- *Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness.*
- *In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness.*
- *At present, the attitudes of three different sets of a unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently. For example, management seeks freedom to close the unit if it feels it is no more viable. Financial institutions think that whatever can be salvaged should be salvaged.*
- *It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large-scale industries.*
- *It is found that the rehabilitation programmes for sick small units are often carried out in an adhoc and hap-hazardous manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit, etc.*
- *Having taken a decision to rehabilitate a sick unit, the programme should be finalized quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates the sickness position and revival becomes a distant goal. At the same time, the rehabilitation programmes need to be implemented in full as a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit.*
- *In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small-scale*

industries borrowers to identify units which are becoming sick or are prone to sickness.

- *Last but not the least; experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small-scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all.*

## **ASSIGNMENT QUESTIONS**

1. *Define Industrial Sickness*
2. *State the nature of Industrial Sickness*
3. *What are the various signals for Industrial Sickness?*
4. *Write at least any 8 symptoms of Industrial Sickness.*
5. *Describe briefly about the factors which cause the Industrial Sickness. Explain both Internal & External Causes with an example.*
6. *What are the remedies to be undertaken to stop the Industrial Sickness of India both by the Government and Industrialist.*

### References

- Entrepreneurship & Management - B.Badhia
- Entrepreneurship & Management - Verabhadrapppa Havinal