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## Industrial Sickness

### Introduction

Definition of a sick unit is given by Sick Industrial companies act, 1985. According to the act "The sick industrial company is a company which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in that financial year and in the financial year immediately preceding it."

### Extent of sickness

Industrial sickness is growing at an annual rate of about 28% and 13% respectively in terms of number of units and out standing number of bank credit. It is reckoned that as of today there are more than 2 lakhs sick units with an outstanding bank credit of over Rs7000crore nearly 29000 units are added to sick list every year.

Industrial sickness especially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like " cotton, Jute, Sugar, Textile small steel and engineering industries are being affected by this sickness problem.

### Causes of sickness of ssi's

Most of the Indian authors and researchers have classified the different types of industrial sickness under two important categories. They are:

#### 1) Internal Cause for sickness:

We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance: This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) Bad Production Policies : The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) Marketing and Sickness: This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) Inappropriate Personnel Management: The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labour relations, lack of behavioral approach causes dissatisfaction among the employees and workers.

e) Ineffective Corporate Management: Another reason for the sickness of SSIs is ineffective or bad

corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

2) External causes for sickness:

a) Personnel Constraint: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) Marketing Constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restraint of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

c) Production Constraints: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d) Finance Constraints: another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

## REASONS FOR SICKNESS IN SSIâ€™s

Production Related Reasons:

â€™ Faulty Product Mix

â€™ Backlog of Production

â€™ Poor Quality of end product

â€™ Delayed delivery schedule

Financial Reasons:

â€™ Low Profitability

â€™ Low fund generation

â€™ Poor liquidity

â€™ Step Cost structure

â€™ Lack of financial resources

â€™ Lack of credit facility

â€™ Faulty credit utilization

â€™ Low share value

Market Reasons:

â€™ Poor marketing strategy

â€™ Imbalance between production & marketing

â€¢ Wild market shifts

â€¢ Lack of awareness of consumerâ€™s preferences

â€¢ Lack of specific market segmentation

â€¢ Poor distribution network

â€¢ Poor market performance

Signals of sickness

The following actions of the unit indicate that the unit is sick or going to be sick:

â€¢ Continuous irregularity in cash credit accounts ;

â€¢ Low capacity utilization;

â€¢ profit fluctuations, downward sales and fall in profits followed by contraction in the share market;

â€¢ Failure to pay statutory liabilities;

â€¢ Larger and longer outstanding in the bills accounts;

â€¢ Non submission of periodical financial data /stock statement etc. in time;

â€¢ financing capital expenditure out of funds provided for working capital purposes;

â€¢ Rapid turn over of key personnel;

â€¢ Existence of large no. of law suits against a company;

â€¢ Rapid expansion and too much diversification within a short time;

â€¢ Any major change in the share holdings.

Effect of sickness

â€¢ Industrial Sickness contributes to high cost economy. This in turn, will affect the competitiveness of the economy at home and abroad.

â€¢ Dead investment is a burden on both banks and budgets and ultimately consumers should pay the high cost.

â€¢ Money locked up in sick units gives no returns and effects the availability of resources to the other viable units

Remedies

Majority of sick units is retrievable in order to tackle the problem of sickness from the two angles the role of three agencies assumes significance: a) The government b) Financial institutions and the industry associations

a) The Role of Government: If the number of units in the country has increased some 10 times since independence and if we have diversified industrial structure with wide spread entrepreneurship the credit for this largely belongs to government.

Second area where the government can be helpful is Vis-À-vis industrial licensing. The very existence of licensing and monopoly regulation legislation implies that there is a stampede to get in when ever licensing is liberalized for an industry or an economy as a whole

b) The Role Of Financial Institutions: The following are the ways by which sickness can be prevented by financial institutions :

- a) Continuous monitoring of unit
- b) Careful project appraisal
- c) Professional institutional response to unit's problems
- d) Required systems at client units
- e) Incentives to units to remain healthy

c) The Role Of Industry Associations : A good practical review by each industry association of installed and usable capacity in the industry , capacity utilization , growth trends , problems etc should be useful for the potential new entrants in deciding whether to enter the industry or not. The industry can have some sort of 1st aid cell this could consist of professionals who could go to the aid of a unit that is beginning to fall with the offer of managerial and technical help also.

Curative measures

These measures include how to cure the sickness after it has crept in. There are lots of agencies which help cure Industrial sickness.

There is Industries (Development and Regulation) Act, 1951, which provides for the takeover of a sick unit by the Government of India. Before resorting to a takeover, other alternatives like rehabilitation through the concerned state government and financial institutions or for the merger of a sick unit with a healthy unit could be explored.

Then there is the Sick Industrial Companies (special provisions) Act, 1985, which was passed by parliament and received the assent of president in January 1986. It was amended in December 1991 so as to bring government companies within the preview of the Act.

Further, there is the Industrial Reconstruction Bank of India (IRBI) which came into being on March 20th 1985 by converting the erstwhile Industrial Reconstruction Corporation of India. It provides assistance for reconstructions and rehabilitation of the sick industrial units by granting those loans and advances, underwriting shares and debentures etc.

For the sick units in the small scale sector, separate facilities are available. State Finance Corporations and commercial banks will be asked to devise a scheme for the rehabilitation of sick units in the small scale sector, and the assistance given by them for the revival of such units will be eligible for refinancing by the IRBI at the concessional rate of interest.

Conclusion

Government should hike its spending to create more jobs and boost the manufacturing sectors in the country.

Government should try to increase the export against the initial export.

The way out for builders is to reduce the unrealistic prices of property to bring back the buyers into the market. And thus raise finances for the incomplete projects that they are developing.

The falling rupees against the dollar will bring a boost in the export industry. Though the buyers in the west might become scarce.

The oil prices decline will also have a positive impact on the importers.

Industrial sickness is one of the most complex problems of the Indian economy. In spite of the different measures taken by the Government the problem persists. The rise has remained unabated, even in the years after the passage of the Sick Industrial Companies Act (SICA) and the creation of the Board for Industrial and Financial Reconstruction (BIFR).

sick units have not only lost their net worth, but they have also lost capital raised from sources other than ownership.

The extent of accumulated losses of sick units in India, is about two times that of the net worth of the sick units.

The failure of the policies in controlling industrial sickness in India,

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