

INDUSTRIAL SICKNESS

Companies become sick at some stage of their existence if they are not managed well. If early signs of impending sickness are ignored, the sickness grows over a period of time. A well-managed company picks up the signals at the appropriate time and becomes healthy. If a management team is unable to revive a sick unit, the stakeholder has limited choices: to bring in a new management team to revive the unit, to close down the unit and cut losses, or to sell it off if there is a buyer.

Sickness in industrial units is universal and not a new phenomenon in developing economies. An industrial unit may face a number of problems during the implementation and operation stage because of a number of factors in the macro and microenvironment. The problem of sickness in industries is very grave and adversely affects production and employment in the country besides producing other socioeconomic repercussions. The following are the ill effects of industrial sickness:

- Sick industries are unable to utilize the production capacity of goods and services. There is an under utilization of capital assets.
- It leads to substantial loss of government revenue and enhances public expenditure.
- Increase in industrial sickness discourages the development of entrepreneurship in the country.
- Industrial sickness results in large-scale unemployment and industrial unrest.
- It locks up necessary resources and funds in the sick unit. This also increases the non-performing assets of banks and financial institutions.
- The profitability of banks and financial institutions gets adversely affected as the return on investments on projects is reduced. Since their funds get blocked in sick units, it results in problems of project financing.
- The confidence of investors goes down. The rate of project financing also comes down.

Therefore, the prevention of sickness and rehabilitation of sick units assumes greater importance.

DEFINITION OF SICKNESS

The Sick Industrial Companies (Special Provisions) Act, 1985, as amended in 1993, defines a non-SSI sick industrial company as follows:

A sick industrial unit is defined as a unit or a company (having been in existence for not less than five years) which is found at the end of any financial year to have incurred accumulated losses equal to or exceeding its entire net worth.

According to Section 3 (1) (ga) of the Amendment Act, 1993, “net worth” is calculated as the sum total of the paid up capital and free reserves of a company less the provision and expenses, as may be prescribed. While the term “free reserves” means all reserves credited out of the profits and share premium account, but does not include reserves out of revaluation of assets, write back of depreciation provisions, and reserves created out of amalgamations.

An industrial unit is also regarded as a potentially sick or weak unit if, at the end of any financial year, it has accumulated losses equal to or exceeding 50 per cent of its average net worth in the immediately preceding four financial years and had failed to repay debts to its creditor(s) in three consecutive quarters on demand made in writing for such repayment.

A company should be engaged in any scheduled industry, i.e. any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951. Scheduled industries include metallurgical industries, telecommunication, transportation, chemicals, textiles but not financial services, and software technology.

Government companies having state or central shareholdings of 51 per cent or more are kept outside the purview of the Act. Also small and medium enterprises and ancillary units are kept outside the purview of the Act.

Causes of Industrial Sickness

The causes of industrial sickness in India may vary from one unit to another. In India, the Tiwari Committee report outlines the causes of industrial sickness and divides them into several factors.⁶ These causes can be classified into two categories: internal causes and external causes.

Internal Causes These are the factors that are internal to the organization and over which the management has control. Sickness due to internal causes can be avoided if the management is proactive enough to identify the causes and eliminate them at the initial stage itself. The internal factors that cause industrial sickness are the following:

- **Project formulation:** Some industries are born sick. Some industrial concerns are sick from the very inception. This is attributed to ill-conceived projects, poor planning, poor appraisal, uneconomic size of the project, outdated production process, and high input costs.
- **Project implementation:** Delayed implementation gives a project a difficult start. This will lead to time overrun and cost overrun, affecting the financial viability of the project. This may be due to inadequate mobilization of finance.
- **Project management:** The problems of project management can be discussed under four broad headings—poor management of production, marketing, finance, and general and personnel administration.
- **Constraints of production:** The problems may be due to wrong selection of site; inappropriate technology; lack of maintenance system; absence of research and development for innovation; and poor quality and productivity.
- **Constraints of marketing:** The problems may be due to lack of market research, a poor and inadequate distribution system, absence of a costing and pricing system for the products, and the dependence on a limited number of customers.
- **Constraints of finance:** Problems may be due to poor resource management, lack of financial planning and budgeting, weak equity base, and inadequate working capital.
- **Problems due to general and personnel administration:** Poor industrial relations leading to labour unrest, lack of motivation and coordination, lack of manpower planning, poor talent management, lack of professionalism, lack of control systems, excessive expenditure, and incompetent and dishonest management.

External Causes External causes are those that are external to the organization and over which the management of the organization has no control. Sickness due to external causes can be minimized if the management plans suitable strategies and takes on the external factors to reduce their impact. The external factors that cause industrial sickness are the following:

- **Infrastructural and technology management:** Irregular supply of raw material, non-availability of technology, shortage of power, water, and other resources, transport bottlenecks.

- **Government policy:** Delays in disbursement of loans from financial institutions, delay in getting approvals from government authorities, import–export restrictions.
- **Marketing constraints:** The sickness could be due to liberal licensing policies, restraint on purchase by bulk purchasers, changes in the global marketing scenario, excessive tax policies by the government, and market recession.
- **Extraneous factors:** Natural calamities, political climate, non-availability of skilled labour, and required talent.