
Causes of Sickness in Small-scale Industries

LEARNING OBJECTIVES

After reading this unit, you will be able to understand:

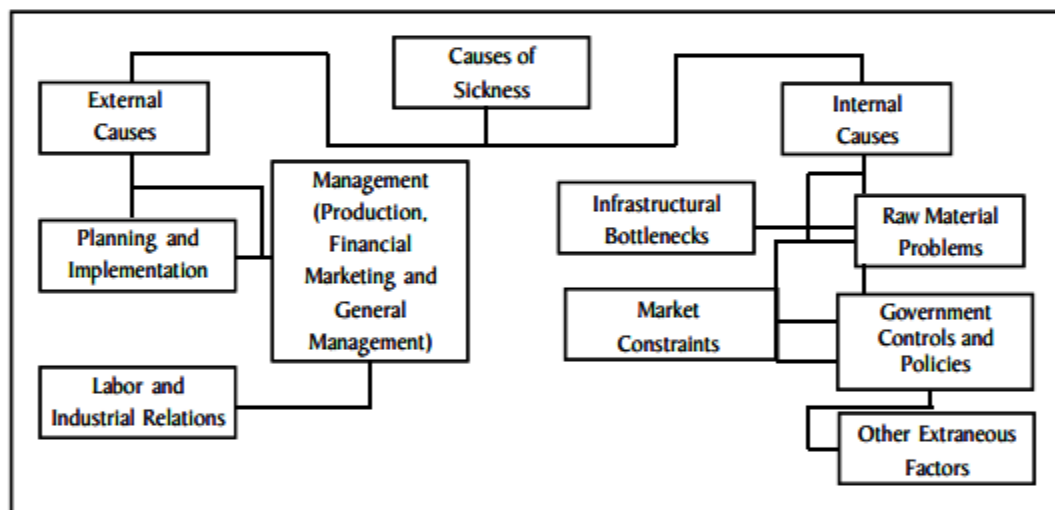
- Mismanagement
 - Marketing
 - Implementation Lacunae
 - Poor Information System
 - Energy Problem
 - Improper Technology
 - Overtrading
 - Psychological Melodrama
 - Lack of Financial Control
 - Competition and Cost of Production and Raw Material
 - Improper Human Resource Management
 - Problems of Entrepreneurs in SSIs
 - Other Constraints Causing Sickness
 - In-built Unfavourable Policies of Government/Institutions Leading to Sickness
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Meet Pawan Ruia, age 48, commerce & law graduate who is also a certified Chartered Accountant & Company Secretary. He worked for HLL and Shaw Wallace for a year and then decided to go on his own. Worked as merchant banker during the bull run in 1991-92. Initially he tried into Chemicals and textiles but his acumen for generating profits where others are making losses was first spotted when he set up Kamalpur Sugar Mill in Uttar Pradesh, at the time when sugar mills were shutting down in UP. The company is still making profits. His testimony of turning sick units to profit centers was registered when he bought Jessop, a government owned heavy engineering major, which was making losses in 2003 he

worked hard day and night and Jessop registered profits in 2006 (after making losses for more than a decade). This is not it, he courageously bought Dunlop in 2005 which was shut down in 1999. He has restarted the Ambattur Plant near Chennai in August 2006 and also plans to restart Sahagunj plant near Kolkatta both part of Dunlop tyres. Not only this he has also bought Hirakund Cables, a manufacturer of transmission towers, and IDOCL, a steel rolling mill from the government of Orrisa, both the units were sick. The benefits that he states for buying sick units is it takes lesser time to turnaround than to establish a venture, the experienced employees are available, moreover it also lights up hope (and hence motivates them) in the heart of employees and their families who are running out of money and resources to meet two square meals a day! Keep Going Mr Ruia!

As far as the causes of sickness in small-scale industry are concerned, it cannot be attributed to a single factor. In fact, it is an outcome of the cumulative effect of many factors/causes working simultaneously which may not be closely inter-related or even interdependent. The important causes of industrial sickness can be classified as:

1. External causes, and
2. Internal causes.



The Various Causes of Industrial Sickness

External Causes: The external causes are beyond the control of the industry, and usually effect the industry group as a whole, e.g.,

- ◆ Non-availability of raw material (or irregular supply, or availability at high prices).
- ◆ A general recessionary trend in the economy which affects the overall performance of the industrial units.
- ◆ High cost of production facing a low realization of sales revenue.
- ◆ Irregular supply of vital inputs such as power, water, transportation, etc.
- ◆ Fiscal irregularities such as those possible in excise duties, import duties, etc.
- ◆ Unfavourable change in government/institutional policies.

- ◆ Industrial strikes, unrest, etc.
- ◆ Natural calamities such as drought, earthquakes, flood, etc.

Internal Causes: Internal causes are within the control of the industry. It may be an outcome of some internal deficiencies or shortcomings in its various functional areas such as marketing, management production, finance, etc. Most of the causes of industrial sickness are, however, due to internal factors such as:

- ◆ Lack of control on key areas like management, finance, marketing, inventory, etc.
- ◆ Shortage of working capital.
- ◆ An improper demand forecast for the products to be sold.
- ◆ Inappropriate choice of technology, non-flexibility of fixed assets, wrong location or layout of industry.
- ◆ A defective capital structure especially on account of delayed constructions and operations, resulting in cost overruns and non-budgeted borrowings interest burden therefrom.

MISMANAGEMENT

A mismanaged unit is, in fact, a sick unit. Management must be intelligent, brilliantly capable, decisive, innovative, very efficient and assuring. In most of the sick units, management fails to take proper decisions on routine matters. Important decisions regarding site selection, production process, promotion avenues, marketing management, etc., are often ignored.

Compared to large-scale industry, management in small business is inherently more difficult and complex due to its nature of single management band. Mostly, small industry is managed by an entrepreneur having experience in only one or two functions, usually production and selling. He is, therefore, most likely to err in other core operational areas like auditing, human resource management, planning, finance, etc. As all these activities require highly specialized skills, it becomes almost impossible for a single man to specialize in all of these fields. As a result, all areas of small business are not effectively managed. Hence, inefficient management makes the small-scale units highly prone to sickness.

Moreover, dynamism in management is generally found missing in these units. The ancestral and traditional businesses are mostly reluctant to introduce change. For example, M/s Ashgar Ali Mohammad Ali prefers to sell their much-in-demand rose water in the same crude, old fashioned bottles with old sampling method. Generally, the senior-most (old) man takes decisions regarding the product and he would generally stick to the same old set pattern. The unit would not respond to the changing environment of the market. Under such static conditions, the unit is bound to become sick. As a word of caution, the introduction of change does not mean that the management should become over-dynamic or over-enthusiastic and start diversifying the product or the whole business indiscriminately.

In a study of 30 industries undertaken by the author, it was interesting to note that the management in public sector lacks decision making as compared to private sector. If two new managers of the same capacity/capability are set – one in the public sector and the other in the private sector – both facing the same situation, it will be seen that after, say, a period of 10 to 15 years the manager in public sector would avoid taking decisions, initiatives, innovations and further his own personal development, whereas the one in the private sector would be more enthusiastic about his performance evaluation, more innovative, dynamic and enterprising. Regular training and performance based reward and punishment systems have enhanced management effectiveness in private sector, whereas, these facilities are generally missing in public sector.

Why is there a lack of decisiveness and decision-making in these managers? The managers are, actually, not to be blamed for this. In the public sector, say a manager takes decisions on certain new issues and shows dynamism. If he succeeds in his endeavour, he rarely gets reward or recognition for his efforts are ever made but in case he fails, there is a pretty good provision for discouragement and by way of adverse repercussions, though in both the cases there is no financial support. So, with no financial incentive, why should he risk unwanted success or failure?

Analyzing the situation, it would be worthwhile to quote Mr B K Sinha in his article *Public Enterprise*, about the steps needed to improve management:

1. "The most important of the resources in an industrial enterprise is the human resource - all other resources like material, money or machines are ultimately to be managed by 'men' and if only an enterprise knows how to manage its men in a manner that can make them give their best, it knows how to manage the rest.
2. The first and foremost requirement for motivating a human being is to accept him as he is with his strengths and weaknesses and not to ever take him for granted.
3. Management is a team function where individual excellence has no place, if it does not contribute to the team's performance.
4. The real custodian of management's interest is the management itself, the larger part of which belongs to the young generation which has been allowed to get disillusioned and alienated from the management process.
5. The younger generation is wedded to the organization for a much longer period and has much greater stakes in its future than the seniors who are awaiting their day of retirement.
6. Not all, but some in the young generation would always have ideas which may look quite simple and may not conform to existing systems or beliefs of the organization, yet, they are capable of bringing revolutionary changes in the organization.
7. The younger generation has been brought up in a society which is far more complex than what it used to be 40 or 50 years before and, hence, can adapt itself to the complex business situations of today far more readily than its predecessors.

Further, there is a lack of proper delegation of authority, concentrated decision making attitude, unclear superior-subordinate relationship and power sharing and an intense lack of a congenial atmosphere for a productive-prone environment in the management of small business. It should not be forgotten that sickness is the result of our ignoring the wisdom of ages that Abraham Lincoln embodied in three aphorisms over a century ago. The remarks that follow are by M S Gujral in his article *Industrial Sickness – Causes and Cure*, published in the *Economic Times* dated August 9, 1984, and they are still applicable in the present scenario.

1. "You cannot strengthen the weak by weakening the strong". (Substitute 'union' for the weak and 'management' for the strong in the present context).
2. "You cannot help the wage earner by pulling down the payer". (Substitute 'wage negotiations' in the present context).
3. "You cannot keep out of trouble by spending more than you earn". (Substitute 'deficit financing of corporation' in this context).

MARKETING

Most of the sick units suffer from inefficient marketing management. Small business generally adopts a traditional way of marketing where 'more' is regarded as 'better'. If marketing places a continuous reliance on the promotion of material consumption, it would lead to a prosperous stage of industrial growth. This notion had served well initially, but with rising constraints such as limited resources, economic factors, environmental factors, etc., moving on the same, traditional paths of marketing appears questionable. The traditional marketing system is one of the major cause of sickness in SSIs.

Most small-scale industries become sick mainly because of their inability to market their products for various reasons such as poor quality of products, lack of market informations, poor advertising, obsolete technical back-ups, less competitive potentials, lack of professionalism, etc. Though the government has been quite protective in reserving around 860 items exclusively for SSIs, the sector still faces some serious marketing handicaps. Most of the SSIs that act as ancillaries to large industry, are forced to restrict their sales to the local market only, which leads to accumulation of stock coupled with lack of demand and deficiency of working capital to procure raw material and other physical resources to keep the unit moving. The restrictive marketing scenario thrust on SSIs compels them to restrict their scale of operations, and forgo economies of scale that could lead them to optimum position.

The ancillary industries often face various problem of marketing like; (1) absence of a structured pricing system, (2) inadequacy of technological support, (3) delayed payments by their parent units, (4) interference in decision-making by parent industry, (5) non-adherence to quality and delivery schedules, etc.

IMPLEMENTATION LACUNAE

In cases of newly established small business, it often faces a delay in the implementation of its plans. For instance, a delay in the construction of the building within the scheduled time, would lead to delay in the installation of plant and machinery and consequently the working capital could not be used in time, etc. If initial functions are delayed further, production and sales automatically get affected. Inability to implement the contingency plan in time, would in turn, delay the release of further installments of loans from the financial institutions. Side by side, costs also shoot up and the demand projections become obsolete. It is obvious that in such cases of sequential delays in implementation of plans, sickness is anticipated from the very initial stages of a project.

POOR INFORMATION SYSTEM

Extremely poor information and reporting system is a normal feature in SSIs, where accounts, cash flow planning, costing, budgetary control, breakdowns, sales revenues, financial statements, statement of chargeable current assets, etc., are not properly reported on a day-to-day basis. At the same time, there is an intensely low level of communication and information system. The information department needs to be set up to strengthen small units.

ENERGY PROBLEM

Shortage of power have done irreparable harm to SSIs in most of the states. Only a few years ago, some 2000 SSIs having nearly 20,000 workers were denied power by the Haryana State Electricity Board. HSEB was blamed for its general apathy towards the demand of SSIs and it resulted in the closure of these units. Similarly, most of the engineering and plastic industries have suffered greatly due to acute power shortage in UP, Orissa and MP. A better managed power sector and energy policy is required to save the SSIs from falling sick due to this avoidable lacuna.

IMPROPER TECHNOLOGY

Obsolete technology and crude technology has been one of the major causes of sickness in small units. Frequent breakdowns, inefficiency in machinery performances due to inadequate maintenance, and delays in renovating or replacing the machinery is a normal feature in these industries. The situation is made worse when, instead of using the funds for depreciation or development rebates, these liquid funds are diverted towards new and unrelated activities. This may help in the short run but will always make things difficult in the long run. "The last few years have seen a growing infusion of modern technology and as the market has

become more competitive, the weak, the infirm and the static among the units find it difficult to survive. Since a crucial element in the scenario has been technology, arrangements have to be made immediately to ensure its widest possible spread. During the last decade, increase in capital has been of order of 6.24 per cent, but the contribution of technology to modernization has been just about one per cent. At times, technology means risk capital. More importantly, the state government lacks the managerial personnel with the necessary know-how and dynamism to man key positions in the units which are taken over. Even if the government can find such technically qualified and business-oriented persons, it should give them adequate freedom of action..... Yet, more of these measures will never work until the workforce comes to realize that it, too, has a stake in keeping a unit going." *The Economic Times*, New Delhi, August 25, 1994.

OVERTRADING

The firms grow at a faster rate than they are able to finance from internally generated cash flow and bank borrowings. The firm focuses only on sales, regardless of whether or not, the same is profitable. Profit margins are reduced and unprofitable buyers are wooed just to increase the (unprofitable) sales growth. There is also shortage of cash because the unit's sale, stock levels and general sales grows faster than their capital allows. A unit managed in such a fashion is bound to become sick.

PSYCHOLOGICAL MELODRAMA

Interestingly, the entrepreneurs – promoters of sick units never accept the blame for the sickness of their units. The blame is shifted on external factors like government, institutions, irregular facilities or so on. Self-analysis is altogether missing. Lack of exercise, heavy smoking and intoxication, lack of sleep, etc., causes decay in their personal efficiency which affects the health of the unit adversely. At the same time, owner-managers of such sick units would not accept that the unit is heading towards sickness at the incipient stage. As Goutanga P Chattopadhyay the great psychologist, remarks in his article *Industrial Sickness – A Psychodynamic Interpretation*, "sometimes the entrepreneur finds it profitable to have his unit suffer losses chronically. The entrepreneur being psychologically sick is ruining the life of several employees and cheating many creditors and financial institutions, just to satisfy his self-indulgence need. On the other hand, the society will never blame itself for not being prepared to keep a check on irresponsibility, corruption of many of its so-called stalwarts."

Reluctance in reporting to factory bribery, unawareness of their managerial incompetencies, non-realization of work-man ratio, overloaded labour surplus, non-cognizance of the need to replace the old machinery and equipment, etc., are just some of the few unhealthy practices contributing to psychological sickness of units.

LACK OF FINANCIAL CONTROL

This is the most common feature of sick industries. Weak financial control is the inability to pinpoint the products and customers on which the industry is losing money. They fail to demarcate where they are using cash and from where they are generating it. As Stuart Slater aptly remarks, "causes for lack of financial control are generally due to a lack of cash-flow forecasts, costing systems and budgetary control". Generally, all of the above factors are conspicuous by their absence in a small-scale firm. If at all any information is available, it is the accounting information. But it is not sufficient, as the firm needs day-to-day financial report. It is, mostly, maintained on an yearly basis which means that it is too late for the management to realize on which items they are incurring losses. Accounting information must compulsorily be frequent and not on yearly basis. Even if financial information including budgets, costing system and cost-flow forecasts are periodically available in some cases (though very rare), there is still no guarantee of its proper and effective implementation. On top of that, it is generally seen that senior officials do not know how to use the accounting information.

Some of the practical problems of small firms are that they generally depend on their own funds and borrowing and not much on financial institutions. Moreover, these financial institutions, despite contrary claims, are generally reluctant to give financial assistance to SSIs either due to the policy of credit restraints or rigidity followed by the financial institutions or on account of the inability of the promoters to comply with the unrealistic conditions imposed by the financial institutions on these units. A rough estimate would indicate that in the small-scale sector, about 15 per cent manage their affairs with their own funds and about 35 per cent with funds borrowed from private sources. The rest depends on funds obtained from institutional credit agencies. Lack of funds also affects the quality and quantity of raw materials and consequently stock of their finished goods. Also, little amount is left to spend on attractive packing of goods making their unattractive to buyers. Thus, it loses demand in the competitive market of a liberalized economy where goods come from all corners and all sectors.

All this sets the stage for failure at the stage of inception itself. Fearing loss of creditworthiness, the owners start painting a rosy picture. In order to avoid tightening of credit by banks, they pressurize for cash payment by their dealers and distributors, and start losing customers. It is interesting to note that sometimes, under such situation, the unit's sales stock levels and general scale of activity grows faster than their own capital. This further results in shortage of cash and, ultimately, insolvency. In fact, the entire process is consequential and feeds on itself.

The other important point where small-scale entrepreneurs should be trained, is the credit squeeze. Prof. Altamen in his book, *Corporate Bankruptcy in America*, aptly remarks that the unit's failures would increase when activity levels are off and on decline. During a tight period, credit will be restricted to those who are thought to be the best risks. Larger firms

are able to invest even at a higher rate of interest and, therefore, the proportion of loans going to larger firms will be higher even when the supply of credit is restricted. Since majority of failures relate to small firms, the credit squeeze results in failure of more units. The expectations of investors also influence the failures of a company. When the economy is expected to turn down, the failure rate increases and share proceeds fall as investors start losing confidence. Simultaneously, the creditors would also start pressing for repayment. All this results in the downfall of a company. As the economic cycle, credit availability and investor's confidence are all interlinked, a firm's propensity to fail is greater during periods of reduced economic growth, depressed stock markets, poor market performance and especially the prevailing tight money supply conditions.

COMPETITION AND COST OF PRODUCTION AND RAW MATERIAL

In the present liberalized atmosphere, the small units have to face intense competition in the market. Those having greater price-inelasticity of the product suffer more - they generate less profits and have lower borrowing power. With scarce funds and lots of competitors, the firms will not be able to invest much in the development of new products, innovative marketing techniques, product promotions, etc. This weakens the product position in the market.

Cost of product depends on the availability of raw materials used in production. But, mostly due to shortage or poor quality of raw materials, costs accelerate and make the product less competitive. Although priority has been fixed to supply the raw materials to these units at a low price, in practice this is not operative. Often the process of procuring raw material at controlled rate is so complicated that units prefer to do without it. Further, shortage of raw material leads to waste of productive capacity, which is a loss for the unit. The problems are all inter-related: (i) an absolute shortage (ii) low quality of raw-material and (iii) high cost of finished goods. With scarcity, the competition intensifies and SSI units competing with large units must necessarily suffer severely. To overcome this situation, these entrepreneurs depend on intermediaries for arranging the required materials which further inflate the cost, because these middlemen keep a high margin of profits on the one hand and provide inferior quality of raw material on the other hand. All these factors adversely affect the final product and, ultimately, the unit's chances of survival.

IMPROPER HUMAN RESOURCE MANAGEMENT

It seems paradoxical that in the most populous country of the world, units are falling sick due to want of (proper and effective) human resource. The availability of labour at low price

is not a problem — it is in abundance. What is acutely lacking is the right skilled person with proper training at the right job. The most efficient use of these resources largely depends upon the quality of the manpower employed. For example, the enterprises established in remote and backward area are likely to face the problem of skilled manpower like qualified engineers, middle-level and senior managers, technicians, etc., who are, at times not interested to work in such remote and backward areas due to various disadvantages associated with living in such areas. Besides, general labour situation may also be volatile in such places. The labour unrest may lead to decline in productivity, deterioration in quality, rise in overheads, etc. All these factors contribute to decline in profitability of the units and sickness sets in.

In addition, the environmental conditions are bad. Obsolete and unreliable lighting systems, low-quality machines, heat, poor ventilation, insanitary conditions, noise, dirty work floors and space, ill-health, large families are par for the course. In rural areas, the working conditions are generally pathetic.

In most of the small units, workers' participation or consultation is not invited, there is a high degree of gap of communication, absolutely no reward or recognition system and poor delegation of authority and responsibility. Inappropriate wage structure, erratic flow of production, irksome atmosphere, job-dissatisfaction, absenteeism resulting in low productivity level etc., are bound to bring about industrial sickness. No amount of financial support can ever hope to solve the problem of sickness coming out of poor human resource management.

PROBLEMS OF ENTREPRENEURS IN SSIs

While it is realized that management in small enterprises is normally personalized rather than being institutionalized, the management of small enterprises can nevertheless improve their position vis-à-vis competitors by introducing management practices that give consistency and viability to the administration of the entire business.

The entrepreneurs mostly involved in successful management of small units, tend to develop elitist attitudes and self-orientation. However, this kind of attitude also imposes a monocular vision which limits the company's capacity to respond positively and aggressively to business opportunities and changing business conditions. A person who stands head and shoulders over his colleagues in perceived authority, can create benefits as well as disadvantages for the business. In cases where he is a poor manager even though a good entrepreneur, his domination might prevent the enterprise from acquiring the skills and methods which are needed for further growth. A gap is thus created between the manager/owner's perception of the situation and his own abilities on the one hand and of the actual needs of the business on the other. Small enterprises often apply a minimum of formalization. They achieve the output without much of differentiation in job content. The built-in informality facilitates a smooth response to minor disruptions but it renders, at the same time, excuses for not establishing and enforcing proper performance standards. Due to the informality of the business and to the fact that most small enterprises are operating with short product cycles, the managers/entrepreneurs do not conceptualize their situation in terms of

opportunities, expertise or strength. The enterprise might, as a consequence, implement decisions on the basis of invalid assumptions or a mis-perception of the situation. This creates problems.

Discipline at the workplace is affected in cases where a small enterprise is filled with relatives of the owner or manager, especially if there are elderly relatives, since, in many cultures it is difficult or even impossible to govern or reprimand such an older relative/employee. The extended family system where it operates, requires that in their recruitment of employees for such a family business, relations of the owner/manager have to be considered irrespective of other employment criteria. But then the above stated facts are applicable to entrepreneurs of successful small units as well.

The story of entrepreneurs of sick small-scale units is altogether contrary. Since many entrepreneurs of small enterprises lack managerial experience when they start their business career, there is often a tendency of basing decisions and actions on hopes and dreams rather than on solid data. There are, for example, numerous cases of small enterprises going into bankruptcy because of the simple fact that they did not know how to price their goods or services. In such cases, even the introduction of the most basic management principles could improve the performance of the enterprises.

Without proper guidelines, the entrepreneur of small business is seen struggling for getting clearances and going through several formalities, first while launching the unit and, if at all it is set-up, he is seen as a suspect by the financial institutions, government and others who need clarifications of his credibility at each step. Without proper education in maintaining accounts, auditing, etc., he fails to understand the reasons of delays on the part of other parties on whose response the whole working and production process depends and the confusion and cumbersome formalities, forms and affidavits he has to secure. With all these handicaps and amidst the loud show of liberalization banner, he is left alone in a free world where the small and the strong and large are equally liberalized to face each other. Schemes are not initiated by all concerned institutions for the development of skills and potentialities in entrepreneurs and wherever schemes are provided, they are not sufficiently equipped for extending in full all the provisions granted in favour of these entrepreneurs. Under these adverse circumstances, the owner is bound to fall sick before letting his unit go sick.

In short, the following points characterize organization and management of small enterprises:

- ◆ The entrepreneur succeeds in business due to his technical skills, not because of his ability to conceptualize market opportunities or plan ahead in strategic terms.
- ◆ In contrast to large companies, which can usually afford specialist staff, the small enterprise manager is a relatively isolated individual trying to deal with long-term policy issues and day-to-day operational problems simultaneously.
- ◆ Small enterprise managers often operate without adequate quantitative data or other information, often blindly following the strategy of other successful entrepreneurs.
- ◆ Due to low wages, limited job security and a low status resulting from working in a small-scale enterprise, the manager cannot easily recruit and keep qualified employees.

Due to these shortcomings, many small enterprises fail to adjust in response to environmental changes, what to mention introduction of new technology or similar developments. When the skills and experience of the entrepreneur become outdated, the enterprise slips into stagnation.

OTHER CONSTRAINTS CAUSING SICKNESS

Despite many favourable attributes, the average small enterprise is often seen to be struggling for survival in a hostile environment. The policy framework, more often than not works to the disadvantage of the small entrepreneur.

Recent studies indicate that import tariffs tend to favour larger companies and the use of advanced technologies. In one case, large companies paid duties of between 0-10 per cent on the import value, while small-scale competitors had to pay 30-65 per cent although they were producing identical or similar goods. A result of the policy framework is that many entrepreneurs are tempted to use an inappropriate technology because of which they soon find themselves trapped in a situation that they cannot manage. Limited technical skills mean that maintenance will be poorly done and the machinery will deteriorate. Lack of space in ports and, in some cases, raw material for the production process due to foreign currency restrictions, might halt the operation altogether.

Many businessmen, running a small venture, are also facing capital restrictions, although not for investments in machinery and equipment. On the contrary, funds for investment in fixed assets are often easily accessible and, in fact, many small enterprises have a large unused capacity. The commonly encountered capital constraint is, instead, to get the all-important working capital. Indeed, very few sources are available to supply the small entrepreneur with money to buy raw material and intermediates, to pay workers wages, etc. Small-scale enterprises in the forest sector rarely exist with business as the single dominating activity of the owner/manager: the small business operation is carried out on a part-time basis, often as a complement to agricultural activities. In many cases, assets are also used for running several ventures. It is, therefore, very difficult to measure the real importance and productivity of the sector or to assist the forest-based activity in isolation. It is also noted that forest-based small enterprises often are located where raw material is available. Compared with other lines of business they tend to be more spread out and, consequently, more difficult to reach with traditional approaches and assistance such as management training and extension service. Most forest-based small-scale enterprises apply unsophisticated production methods and equipment. It seems that most work on an order basis, rather than producing for stock to supply a distant market. Although such a system reduces the working capital tied up in production or stock, it also limits the scope for productivity improvements.

IN-BUILT UNFAVOURABLE POLICIES OF GOVERNMENT/ INSTITUTIONS LEADING TO SICKNESS

This particular cause is historical. Since long, intentional steps taken by the government have wreaked havoc on Indian industries. Starting from the once flourishing industries in the textile sector, they fell prey to the outcomes of non-pragmatic government policies. The handlooms and powerlooms were taken on preferential basis leading to an infra-sectional imbalance which adversely affected the organized sector of the mills which were already under numerous regulations and reserves. Even the capital was eroded, thanks to the statutory obligation for the production of controlled cloth placed on the organized mill sector. Somewhere in the third plan, additional burden was loaded because of the uneconomical price fixed for cloth and it was normal to witness increasing prices born of high cost of production due to rise in prices of cotton, wages, bills, other inputs, etc. The sugar industries were also not spared with pricing policy in respect of levy on sugar and an unrealistic cost schedule based on artificial averages, accompanied with political overtones in the fixation of sugarcane price which caused a miserable imbalance between cost of production and the actual slow sales realization of market sugar. This shattered the health of sugar industries almost in all states. Engineering industries were made to rely heavily on government policies. The interference of government through ill-framed policies like allotment of raw materials which are scarce in the market at the controlled price, issue of land, etc., at lower price were the glaring causes of sickness as industry started taking advantage without genuine reasons. Even sickness remained concealed in public sector because of the unlimited financial support provided to them.

These SSIs have to think of providing something different from what's already in the market-place. This requires them to be innovative, as innovation has now assumed greater significance than ever before. In this regard, in order to promote innovation among small entrepreneurs, SIDBI has launched a National Programme on Innovation and Incubation, under which work for two innovation and incubation centres including one in Eastern India at Ranchi, is already under way. SSIs have to adopt the policy of 'co-operation'. Competition is a strategy of competition with co-operation. Indeed, this is an era of fierce competition and the need is to develop long-term markets. In this regard, sub-contracting, ancillarisation and strong vendor networks can be the best options.

Work Culture

'Work culture' is a term which is, unfortunately, the most misunderstood concept, but is a major reason for deteriorating performance not only in the state's industries but also the public sector as a whole. Under this context, it seems natural to question as to whether sickness is zone-specific, industry-specific or work culture-specific. Whether bad work

culture, as is being held responsible in many quarters, is the main cause of industrial sickness is worth pondering over. Had it been so, then what is the answer to the question of widespread sickness of textile units in West Bengal, Orissa, Gujarat and Maharashtra? Not only the public sector, but the private sector as well is primarily affected by sickness because of bad work culture. Not to mention SSIs, even the blue chip companies like IISCO, Jessops, Braithwaite, Martin Burn, Elgin Mills (UP) and Richards & Cruddas (Maharashtra), etc., had become sick due to worsening work culture and had to be nationalized. As a matter of fact, 40% of the present sick public sector units were originally private sector units, which had to be nationalized because of the sickness caused by deteriorating work-culture on the part of the administration and financial mismanagement including siphoning off of funds. The case of Dunlop is a glaring example before us. After showing a comfortable profit in 1996-97, the company enlisted itself as a sick company in BIFR as a sequel to some reported manipulation of balance-sheet figures. The work culture, therefore, cannot be discussed in isolation of workers while ignoring the corporate and management practices.

The fundamental reasons for sickness of industries are technological obsolescence, lack of planning, timely modernization, loss of market and, over and above, the work culture, which comprises good corporate culture, good management culture, high ethical standards and practices and, of course, committed workers led by a responsible Trade Union.

In the traditional small industries, it was widely noticed that feudal traditions still play a major role in the day-to-day management of Indian companies. In the pre-liberalized management system, sharing of information with workers and transparency of information and good governance were supposed to be basic for good industrial relations. In the State's context, unfortunately, barring a few good companies, both in private and public sector, average managers still have a feudal and not a professional approach. There is lack of a positive and healthy approach towards workers, as they are not inclined to recognize participation of workers in management through organized trade unions. This is the reason for an in-built eruption of dissatisfaction and deterioration in efficiency and environment of the industries which cannot be tangibly measured, but can be objectively realized. This is the major cause of sickness which is difficult to detect by inefficient managers leading to increasing numbers of sickness. The entire focal point of the corporate thinking about good work culture actually means a working without unions commiserating with a growth without jobs. We cannot adopt a good work culture in the absence of wise and justified trade unions. In fact, it is an organized and responsible behaviour of management, workers and owners working with a common objective, recognizing the importance of workers' participation and development not just in physical terms but also in terms of technology upgradation, corporate governance and better transparency which could result in a good work culture, finally leading to a healthy industrial culture ignoring sickness at the very inner and grass-root levels.

SUMMARY

This Chapter discusses the various causes of sickness in small-scale industry. The following causes have been discussed: mismanagement, marketing, implementation lacunae, poor information system, energy problem, improper technology, overtrading, psychological barriers, lack of financial control, competition and cost of production and raw material, improper human resource management, in-built unfavorable policies of government/financial institutions leading to sickness.

REVIEW QUESTIONS

1. What causes sickness in small-scale industry?
2. Discuss the problems of small-scale and collage industries in India. Suggest remedies.
3. Explain the conditions under which small-scale industries are preferable to large-scale industries. State the Government policy.
4. Point out the difficulties of providing finance for small and collage industries. What steps may be taken to improve the situation?
5. Do you think the Government policy with regard to small-scale industry is just the export policy? Give an account of weaknesses, if any and also give suggestions you will like to make in overcoming these weaknesses.
6. How do lack of financial control and inappropriate marketing cause sickness?