CHAPTER III

Review of Literature

Industrial sickness has become a universal phenomenon. The academicians and functionaries who are responsible for this serious industrial problem have identified many factors. In this part, we are presenting the viewpoint of various authors who have done work in this field.

Small scale sector have grown up quantitatively as well as qualitatively. Three decades of industrialization have made India, perhaps, largest industrialized country in Asia next only to Japan. The contribution of this vital sector to Indian economy is substantial, while on the other hand, the number of SSI units is increasing every year because of regular government proclamations in the shape of tax relief, subsidies, duty concessions, financial assistance and even exclusive reservation of several articles of production. On the other hand, more existing units are getting sick in serious proportions resulting not only loss of production but also displacement of labours employed in affected industrial units has been increased rapidly. The number of sick units that was only 23,149 in 1980 has gone up 2224012 in 1998, showing an alarming trend of ever increasing sickness in the small-scale industrial sector.

Investigations by various scholars and agencies put the incidence of sickness on the higher side. Various researchers have conducted studies to determine the incidence of industrial sickness throughout the world. It has been observed that Government of India is also keen to fight the challenge caused by the industrial sickness in the country. The literature available on this subject in the Indian context as well as in the other parts of the world has been reviewed in the present chapter under Indian Studies & Foreign Studies.

Gupta L.N. (1970)1 pointed out that poor performance of Hindustan Steel Ltd. (HSL) and National Coal Development Corporation Ltd. (NCDCL) has been

due in appropriate decisions relating to size, location, raw material, design, selection of processes, equipments, personal and contractual arrangements etc. The author further ventilated that HSL has been incurring losses because of under utilization of capacity, defective pricing policy, recession and heavy inventory and NCDCL has been also in losses due to improper planning, over staffing and lack of proper coordination.

A group of Vidarva Industries Association studied 50 sick units having the capital investment ranging between Rs 1 lakh to Rs. 5 lakhs. It was found that most of the difficulties of the small-scale units arise from financial and administrative constraints, spiraling interest charge and recession in the market. The credit requirement of the industries are more which are located in the far away places, these units have to keep inventories as compared to the units of developed industrial areas.

Chakravorty (1977), conducted a study on, “Maintenance management in sugar factories.” The researcher found that financial production cost is low in India it is followed by Australia and Thailand. However in respect of factory productive cost, in Thailand it is lowest and followed by Australia and India. The researcher stated that thus India would have to face tough competition from Thailand and Australia in the world sugar trade. The researcher emphasised that there is an urgent need to reduce our factory production cost to compete the Indian sugar factories at global competition.

A study conducted by the Orissa state financial corporation (1977) revealed that inadequate working capital, inordinate delay by the commercial banks in the sanctioning of working capital funds, lack of market, tough competition from outside the state, management deficiencies (mainly among the first generation entrepreneur) and long gestation period etc. are the major reason of industrial sickness.

1 Survey Report: sick units in Vidarbha in the small-scale sector, 1976 Published by the Vidarbha Industries Association.
3 The Journal Indian council of small industries, Heralded vol. VIII, No. 3 Calcutta, 1977, p.17.
Moraka R.R. (1980)\(^5\) in a detailed study on sick units stated that under utilization and wastage of resources are prevailing in all types of units irrespective the size of the unit. The study stressed that internal and external, both factors are responsible for sickness and the disease of sickness. These factors, can be diagnosed through proper financial and managerial assistance at proper time. The study further stated that private sector has to work within the four walls. The study high lighted that small scale industrial units are existing on papers only, so as to enjoy the benefits of land and lower price. Whereas the public sector is working under the patronage of central government. It is enjoying the facility of soft loan and other financial assistance of the government. The study further stated that the private sector has to work within the guidelines issued by the government for achieving the objectives it can not work of its own. The non programmatic policy of the govt. regarding power looms and hand looms is mainly responsible for the unit to become sick says the study. The sugar mills and cloth mills are facing lot of difficulties because of the pricing policy of the government. The study emphasized that the government should review its policies towards the SSI units and should implement it in letter and sprit. It recommended that merger and amalgamation of the sick units are important for restoring the health of the sick units within the state. The study further suggested that financial institutions should extent help in deserving cases.

Gujrat Industrial and Technical Constancy Ltd\(^6\) conducted a study to find out the causes of defaulters on behalf of the Gujrat state financial corporation of 29 major defaulting units. The study team stated that management incapability is one of the major factor of industrial sickness. The team emphasised that competency of entrepreneur, in various areas of management, degree of commitment to the project, appraisal of the project and orientation of the entrepreneur should be given due consideration. The team further stressed that family disputes are found to be major operational problem in those cases where


lady partners/directors are in the units. The non-existence of infrastructure facilities led to delay in implementation and cost escalation, breaks in communication between the promoters and financial institutions became the major factor in delay in disbursal of loans. The study group recommended that review and revision of the policies for approval of machinery suppliers and follow up of the projects, should be done by the experts in related field.

Hanuman and Prasana (1981)7 conducted a study on, the role of banks in nursing sick units. The researchers compared sick units with a sick human being, which need sympathetic nursing through diagnosis techniques for identifying ailments through various qualitative and quantitative measures with available nursing availability. The researchers in their study emphasized on the model of Z test. Where value of Z is 3 and above than cannot fail and Z lies between 1.8 and 3, it is to be nursed and when 2<1.8 such units are beyond nursing. The researchers opined that the fictitiously nursing of healthy units may prevent the needy units to avail the facility of nursing. The researcher further stated that before the identification of sickness the evaluation authority must keep in mind that whether finance is nurseable or not. It was emphasized that culprits must be supervised during operations and financial assistance should be observed. In case of insincere and inefficient employees stern action should be taken and appropriate planning must be suggested. The researchers further opined that if units are not nurseable then the path of merger and liquidation or some other alternative may be chosen. If these steps are taken the problem of sickness can be avoided to a great extent.

The First International Conference of the Financial Institutions in 19816 appointed a study group to investigate the causes of industrial sickness across the world. The study pointed out that shortage of resources at the disposal of sick units, lack of experience in financial and management techniques, lack of planned and organized approach on the part of the entrepreneurs, are some

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The study team appointed by R.B.I in 1975\(^9\) to investigate the reasons for the shortcomings of small-scale unit. The study group analyzed the profile of 120 units in small-scale sector. The group selected 100 sick unit and 20 successful unit for the purpose of their study. The study pointed out that there are certain basic shortcomings in most of the small-scale units. The study stated that limited resources, lack of equity, lack of appreciation of requirements of properly run industry particularly in financial management and lack of planned and organized approach are some of major shortcomings of small-scale units. The study team emphasized on the greater role of the bank, they opined that bank should not only get as a financier but also provide technical knowledge to this industrial sector. The study group recommended that banks should provide counselling of basic material dealing keeping in view the basic requirements of managing small scale units, the bank should provide training and education to the borrowers and a National Equity Fund be created for the rehabilitation of the sick units. The decision making process at the branch and controlling authority level was also examined and recommended, that appraisal of the follow up procedure, guide line for nursing sick units, technical support, more frequent discussions with the borrowers etc. are necessary in this regard be taken firmly. The study group stated that if these stags are taken the problem of sickness in small-scale sector can be avoided to a great extent.

\(^9\) Report on the State Bank of India, study taken on small scale sector, 1981.
Dave (1981)\textsuperscript{10} analysed the sickness of textile industry in Gujrat with the objective of analyzing the key areas of management. It was concluded that industry is the victim of hostile environment and government policy, technological development, shift in demand and power shortage, working capital requirement are the major causes of sickness. It was further stated that management could not identify the problem in time and could not keep pace with modern technology. The units worked with obsolete machineries. It was found that if all these problems are detected well in time the problem of sickness can be removed to a great extent.

Continho (1982)\textsuperscript{11} put forth that increase in the price of imported raw material has led to more demand for loans and consequent increase in credit rationing unemployment and declined economic activity that contribute to poor performance of small scale industries in Portugal.

The study team appointed by R.B.I. in 1982\textsuperscript{12} under the chairman of Sh P.D. Ohja to examine the issues relating to setting up of soft loan assistance fund for rehabilitation of sick small-scale industries. The team recommended the constitution of SLAF to ensure that sick units becomes viable. And SLAF will enable to borrow for their future operations from banks and state level financial institutions. The team emphasized that main objective of this fund is to reduce the tax burden of the past borrowing and it provides both equity type loans to the units as well as reference to credit institutions.

Al Hashimi and Ahmad (1983)\textsuperscript{13} analyzed productivity problems in Iraq and found that as compared to capital investment labour has not been given due attention. The authors emphasized that majority of the productivity problems in

industries has been because of lack of motivation, low wages and improper working conditions.

Kaveri V.S. (1984)\textsuperscript{14} identified poor health of the borrowers, lack of orders, difficulties in obtaining raw materials, availability of skilled labour and inadequate orders as the most crucial factors of sickness.

Bhat, Mishra and Hegde\textsuperscript{15} conducted a study of a sample of small-scale units and medium / large scale units in Andhra Pradesh to investigate the causes of sickness. The researchers stated that improper planning and management, defective corporate management, inefficient operations and problems of the technology are the main reasons of sickness.

Sharma (1984)\textsuperscript{16} pointed out that sickness of an industrial unit can not be cured only through financial assistance, but in addition to it raw material supply, marketing and power is needed. He emphasized that for rehabilitation coordinated efforts of the financial and non-financial agencies are required. The author citing the example of Kumaun region stated that in Kumaun Region, resin and terpine industry became sick due to shortage of raw material, wooden industry due to acute shortage of ethyl alcohol or spirit as a result production cost increased, Hosiery Industry due to unqualified and inexperienced management, Gorava straw and card Board mills due to heavy interest rate, lack of technical knowledge, mismanagement and low quality of goods; The cold storage industry due to restrictive rate of rent imposed by govt. and over head expanses like labour, electricity, maintenance charges etc; Ganesh Katha Factory due to heavy competition, shortage of raw material and the heavy competition from imported Katha form Nepal and Kashi conductors became sick due to shortage of power supply. The author stressed that if government provide adequate raw material and power to the entrepreneurs these industries can recover from sickness.

\textsuperscript{14} Kaveri V.S. How to diagnose prevent and cure industrial sickness - A Practical Approach Sultan Chand & Sons Dlii – 1983.
\textsuperscript{15} Economic Times, dated 15\textsuperscript{th} August 1985. ✓
Subramanyam,17 Rao, Rao Ram, and Venkataram, observed that costly yarn, stiff competition from mill made fabric, higher cost of production, accommodation of stock and inadequate marketing facilities are the major hindrances for the prosperity of the handloom industry. The author further emphasized that the middlemen in the real sense grabbed the fruits of the industry and craftsmen are continuing their profession just to sustain themselves. It was suggested that interest of the weavers (craftmen), should be protected, training of new designs should be imparted and welfare schemes of provident fund should be introduced, both in government and privates, sectors.

Murty and Rao (1988)18 opined that sickness is caused due to shortage of working capital, delay in disbursement of credit, shortage and irregular supply of raw materials, lack of market and organized marketing channels, technological obsolescence and lack of coordination between various support agencies and DIC’s. It was suggested that flexible credit policy should be followed by the financial institutions so that sufficient funds can be obtained by the small scale industrial units. The author further emphasized that for effective marketing facilities, a marketing consoltia may be setup, for improvement in techniques of production, research and training facilities should be provided to the small-scale units on priority basis. And DIC’s should build up nexus between various small-scale units and other agencies which helps in averting sickness in the small-scale industries. It was found that if all the facilities are provided to the small-scale industrial units the problem of sickness can be removed to a great extent.

To examine the legal and other difficulties faced by the banks and financial institutions in rehabilitating of sick industrial undertakings, R.B.I. appointed a committee (1984)19 under the chairmanship of T. Tiwari. The team of reference was to review the present policy framework, existing criteria in

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determining the suitability of a sick units for revival and to suggest remedial measures including amendment in Land Ceiling Act etc. It was found that timely detection of symptoms of sickness and formulation of a nursing programme is an essential pre-requisite-viability on a commercial basis should be the main criterion for identification of the sick units under rehabilitation programme. It also recommended to make suitable amendments in urban Land Ceiling Legislation and setup a National Industries Rehabilitation Fund to provide equity support and Redundancy Fund. The idea of creating industrial management service to man industrial units on the line of IAS of IPS was also suggested.

The working group (1985)²⁰ setup by the government of India to study the problems faced by state small industries corporation pointed out that two inputs (raw material and marketing assistance) are important for checking the menace of sickness in small scale industries. The group recommended that D.C. (SSI) should strengthen its arrangement for preparing project reports and conducting the marketing surveys by consultants and experts with a view to providing useful technological and marketing intelligence to small-scale industrial units through SSIC’s. The group also emphasized to provide more raw material assistance to small-scale industries. It was further recommended that quality testing centres must be started with the help of concerned states in the country.

Wang (1985)²¹ observed that steel industry in U.S. shown a tendency to decline in 1950’s because of slow growth of demand for steel products. The author also pointed out other internal factors responsible for dismal performance of steel industry like-frequent labour strikes, discovery of new iron ore deposits outside the country, lower rate of water transportation etc. Thus lower rate of return not only result in poor cash flow from steel operations but also keep investors away from the market.

²⁰ Ibid p. 56.
A committee constituted for the evaluation of self employment scheme to educated unemployed youth (SEEUY) in Himachal Pradesh (1987) under the chairmanship of Dr. M.K. Sharma pointed out that majority of the beneficiaries were facing the problems of high rent premises and shortage of raw material. Lack of professional competent banking staff also contributed to aggravate the problems of entrepreneurs. A survey on financing of working capital by commercial banks-a study of small scale industries in District Sirmour (H.P.) (1987) was also undertaken under the chairmanship of M.K. Sharma. The survey revealed that the commercial banks had been following the security-oriented approach in financing working capital and following discriminatory policy for each industrial group of sample units. It was suggested to adopt need based approach in financing and capital requirements of different industrial undertaking should be reviewed on a continuing basis in dynamic environment.

The super control verdict (1988) in the Kamani Tubes case conceding the right of workers to revive a sick unit should have far reaching consequences. The court has acknowledged that while the sick industrial (special provisions act 1985), does envisage the revival of sick units by worker. It (as far as known) has for the first time in the legislature intent reflected in the relevant provisions of the act to encourage workers. Scheme is being given concrete shape in this manner. Credit in no small measure is also due to the Bureau of Industrial & Financial Reconstruction, which approved the scheme framed by the Kamani Tubes Employees Union (KTEU) in Bombay for the take over of the sick company, which had not paid wages to its employees for the past three years. A heavy responsibility now rests on the shoulders of KTEU for the implementation of the scheme. Thousands of similarly situated workers around world would be watching the outcome of the bold experiment with anxiety and hope. Nearly two

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23 Himachal Pradesh University, Department of Commerce and Business Administration, A survey Report on under financing of working capital by commercial banks: A case study of Sirmour District. H.P. University 1987 Shimla p. 46.
million labourers rendered jobless due to increasing industrial sickness will be looking up to the KTEU to make a success of its bold venture. The scheme is after all backed by creditors banks of Kamani Tubes and the Central Government and the Central Government and the State Governments has promised, tax concessions and other help. But the most important factor in favour of the scheme is the workers, willingness to sacrifice of their wages in the first five years and 15 hours per annum during the next two years. The union has also agreed to rationalize the work force through retrenchment wherever necessary. The workers scheme contemplates the operation of Kamani Tubes within six months with the existing machines and infrastructure. There is no doubt whatsoever that the scheme was the only feasible one as members of the Kamani family had failed to produce a better model for the revival of sick unit. Under the scheme accepted by the Supreme Court, the company's shares of the face value of Rs. 96 lac would be transferred at a token value of Rs. 1 per share to the employees, co-operative society. The society-wise raises an additional equity capital of Rs. 70 lac with a matching contribution from the Maharashtra Government. To ensure the prompt implementation of the scheme, the court took case to clarify that notwithstanding any order that may be secured by any party from any other firms. The scheme shall be implemented in obeisance to the judicial command embodied in this order, and that in case there is any problem, it may be brought to the notice of this court for seeking appropriate directions. This is vital for the smooth operation of what is socially and economically a revolutionary scheme. As part of its long-term policy to reduce the incidence of industrial sickness, the Union Government should ensure that companies could be identified in the early stages of sickness so that the task of rehabilitation and revival is made easy.

Ganguly in his research article on small industries: problems and prospects (1988)\(^2^5\) analysed the performance, policies, problems and prospects

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of small-scale industries. It was found that this sector still suffered from certain problems. Where inadequacy of finance is one of the major factor of sickness.

Sharma (1989) conducted a study of 120 industrial units (40 each in district Solan, Sirmour and Una) in order to investigate the extent and causes of sickness and to suggest the remedial measures to check the industrial sickness in the state of Himachal Pradesh. He concluded that major causes of sickness related to finance, technology, market and labour. He observed that the promoters are not utilizing working capital funds properly. The incidence of sickness was found highest in district Sirmour 42.5 percent followed by Solan 27.5 percent and lowest in Una 20 percent. The total sickness was estimated at 30 percent. The highest sickness was witnessed in mineral based industries 55 percent followed by manufacturing industries 36.3 percent. However no sickness was found in forest based industry. Minor sickness 8.31 percent was found in steel industry. The study suggested that Industrial Reconstruction Bank of India (IRBI) and Industrial Development Bank of India (IDBI) should play leading role to rehabilitate the sick units; The government should supply raw material at reasonable rates; some items be earmarked for small scale sector only; and the financial institutions/banks should sanction and release loans well in time.

Panda (1989) opined that sickness is caused due to internal factors like mismanagement, competitive market, traditional techniques of production, poor sales efforts and technology as well as the external factors like non availability of finance, shortage of power and bad union management relations etc. In order to restore health of sick industries and the industries proceeding towards sickness, the study further revealed that the role of management, government, financial institutions and professionals is quite crucial. The study also suggested that owners, bankers, financial institutions labour and management should jointly formulate rehabilitation programme. The study also suggested that in order to

make industrial unit viable, the cost of production should be reduced and quality of the products be improved.

Misra (1990)\textsuperscript{28} observed that sickness does not occur all of a sudden rather it passes through various stages and pointed out that sickness is caused by internal disorders in the functional areas / or external disruptions, lack of proper reporting system of accounting data, poor production, marketing, personnel and financial management, changes in the environment resulting from economic, social, political etc. It was suggested that besides financial operational as well as technical aspects of working of an enterprise should also be taken under consideration for revealing the industrial sickness.

Khan A. Nafees (1990)\textsuperscript{29} in his study observed that management failure, inadequate supply of quality raw material at reasonable prices, sudden breakdown of electric power, inadequate financial help from institutional agencies, delayed payment for government purchases, humiliating attitude of bank officials and government agencies, lack of modernization are the major factor of sickness. The researcher suggested that govt. must launch a crash programme and financial institutions and banks should not hesitate to finance additional funds to meet the additional requirements of the sick units. And efforts should be made to detect the symptoms of sickness at early stage.

Mehta and Kondle (1991)\textsuperscript{30} pointed out that Himachal Pradesh does not have adequate liquidity which shows the inadequacy of working capital. As a result shortage of raw material, marketing problems and mismanagement of funds problems emerged. It was further stressed that the debt content is comparatively high and the owners venture capital in total capitalization is not adequate as per general financial norms. It was concluded that it is because of special incentives which are given to the entrepreneurs in industrial backward state. (H.P.) and it was suggested that the govt. should remove the problems of

\textsuperscript{29} Khan A. Nafees, “Sickness in Industrial Units”, Anmol Publications New Delhi 1990 p. 115.
availability of raw material and financial management training should be imparted by the promotional agencies to the entrepreneurs.

Khandwala (1991)\(^{31}\) stated that the inappropriate management, lack of professionalism, needless growth, excessive conservation, bureaucratic rigidity and lack of proper system are the main causes of sickness. The researcher emphasised that unless defective management is quickly rectified and replaced the govt. policies and relief packages proposed by the financial institutions has only marginal relevance. The researcher stressed that it is the collective responsibility of academician, management schools, financial agencies and all other concerned agencies to play an active role to improve the management skills and remove the incompetent and corrupt management of the sick units as earlier as possible.

In one of the study R.B.I.\(^{32}\) stated that managerial deficiency is one of the prominent cause of sickness in each industrial group. It further stated that marketing problems, infrastructure shortage such as power, project shortcomings, labour unrest and factors such as government policy were some other causes of sickness of industry in the country.

Agnihotri (1992)\(^{33}\) conducted a study and pointed out that 900 units have been closed in Himachal Pradesh and the state has suffered a loss of Rs. 50.00 crores. Besides this overdue were stated at Rs. 250.00 crores. Which is not a healthy sign to the economy of Himachal Pradesh.

Sahu and Misra (1992)\(^{34}\) have identified a number of responsible factor for industrial sickness in the country some of the prominent factors are faulty planning, managerial deficiency, lack of professionalisation, lack of inventory and control devices, internal dispute, recessionary trends, changes in fiscal and monetary policies, shortage of power and non availability of raw materials.

Toor N.S. (1994)\textsuperscript{35} emphasized that small-scale industries are important for the economy for verity of reasons, employment generation, self employment, important role in G.D.P. etc. The author in particular revealed that failure of SSI is caused by finance problems (35 percent) marketing (14 percent) raw materials (6 percent) and others (35 percent) etc. Further the author concluded that the SSI's main problem is cash flow problem and inability to collect book debts quickly and efficiently. The author suggested that in case the banks want to see their SSI loan accounts remain performing the extension of factoring services should be taken up on priority basic which could prove to be a supporting finance activity since that will take care of the largest component (receivables) of working capital requirement of SSI's units, which quite often remain under financial by banks for a variety of reasons.

Mishra D.P. and Bhiswas Roy (1994)\textsuperscript{36} conducted a study of 45 sick and 45 non-sick companies for each sick company, an identical non-sick company has been matched on the basis of the industry size, fiscal year and found that \textit{profitability ratios are better indicators of impending sickness than the other ratios}. The author opined that the discriminated model of this study gives a high degree of accuracy in predicting as well as signaling sickness. This discriminated model can, therefore be relied on to a great extent for predicting the financial health of India agencies like banks, companies, potential investors and financial institutions and may use access the management of sick companies may also find the model useful for taking suitable measure to improve the different parameters used in the model and start the process of rehabilitation and has suggested that follow up action can check the malady of sickness and can conserve the scare resources of the nation.

Himachal Consultancy Organization (Himcon) 1994\textsuperscript{37} conducted a study of Mehatpur industrial area in District Una of Himachal Pradesh with the objectives

\textsuperscript{35} N.S. Toor. -Working capital Problems ofSSI” The Tribune 29th August 1994.p. 11.
\textsuperscript{37} Himachal Consultancy Organization, Industrial sickness at Mehatpur Industrial Area, Shimla 1994, PP 4-8.
to find out the general scenario of the category/product-wise industrial units; the status of the units whether running smoothly/under capacity/sick/closed; incidence of sickness and category in which the units falls for rehabilitation purpose. The sickness was defined as per the guidelines of Reserve Bank of India and Industrial Development Bank of India. About 70 percent of the industrial units were found sick. The viability in respect of 53 percent units was considered doubtful without substantial concessions from the financial institutions and the banks. The study team found cost and time over run in the projects, over investment in the in productive assets, inadequate working capital facilities sanctioned by the banks, managerial incompetency, nullified intention of the promoters, Marketing problems, wrong project selection, delay in release of loan and faulty appraisals as the major cause of industrial sickness.

Khanka S.S. (1995) in his study opined that industrial sickness does not occur overnight in any enterprise but the symptoms of industrial sickness occur 5 to 7 years before the unit becomes sick that can be observed by the factors like decline in capacity utilization, shortage of liquid funds to meet the short-term financial obligations, irregulatory in maintaining the bank accounts, delay or default in the payment of statutory due etc. which results into the deterioration of financial ratios, moral degradation of employees and desperation among the managers. The author has further emphasized that the financial ratios are presented after a long time usually of one year whereas; the malady of sickness is set quite ago. Secondly, there is always apprehension that the disclosed figures are well dressed up especially in the case of sick prove industries. Lastly, the author stressed that the earlier identification of symbols and symptoms should be made in advance to make the endeavor of detecting sickness easier.

Balan (1996) ventilated that long procedures, inadequacy of working capital funds, delay in importing plant and machinery, poor market, lack of

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1 Khanka S.S., "Industrial Sickness in India", Common Wealth Publishers, New Delhi, pp 52-53.
technical expertise and poor cash flow are responsible for driving majority of small scale units in sickness.

The All India Association of Industries (1996)\textsuperscript{40} stated that sickness tends to be higher in the rural and back-word areas and is more pronounced for those units that had obtained term loan for plant, machinery and other fixed assets.

Taneja (1996)\textsuperscript{41} a former member of Indian Statistical Services has opined that more than a quarter of India's industrial units are sick and merit immediate attention of the planners. These involve capital investment of Rs. 2200.00 crores approximately. The researcher observed that there were many instances where units having investment in the range of Rs.35-60 lack, Rs.60-75 lakh and exceeding Rs.75.00 lakh were not employing even a single worker, resulting in enormous amount of wastage of capital. The researcher pointed out that most of the units in the industrial sector are not working to their full capacity and gainfully, utilizing their investment and similar situation also prevail at the state levels. It was pointed out that if this phenomenon is viewed at macro level of industrial sector, much more disbursing features world emerge, reflecting an extremely, dismal industrial scenario at the national regional and the industrial level.

Sidhu Hina (1997)\textsuperscript{42} in a study on "Wage Differentials in SSI Sector in Gujrat" opined that small enterprises do not follow any economic criteria in their operations and wages are paid as per the wishes of the employer due to which, the employer's turnover is significantly high. The researcher emphasized that as the small-scale units employ relatively less number of workers, resignation of skilled workers cause considerable loss to production. According to the researcher, the later argument has some relevance while the former losses validity while examining the SSI statistics. Further, the author opined that SSI sector is mostly unorganized and scattered across the country and follows almost similar pattern in decision making as the organized large scale sector does and has found out a positive correlation between wage rate and labour productivity.

\textsuperscript{40} Ibid, pp 18-19.
\textsuperscript{41} K.C Taneja in Financial Express, July 8, Bombay 1996.
Lastly, the author suggested that since SSI units have forward as well as backward linkages with the large scale units, the Government should provide adequate weight to their contribution to the industrial sector in general and industrial dispersal leading to regional growth in particular while formulating policies for the SSI sector.

In one of the study of development commissioner small scale industries and stated that non availability of raw material, shortage of working capital, price hike of raw materials and marketing problems are the major causes of sickness in many industries. Further in the early 1990's development commissioner small scale industries (DC, SSI) published it second census report on the small scale industrial units, in which financial factor was identified as the single most important factor causing industrial sickness, the team observed that financial factor accounted for the 34.7 percent of the total sick units. Whereas marketing accounted for 14.4 percent and material ranking was 5-6 percent respectively.

Moris (1997) revealed that deliberate mismanagement, intention to divert the finds, dishonest intention of the entrepreneur to get concession from the government are the major reason of sickness. It was further stressed that delayed payment, lack of coordination between financial institutions and banks, as well as business conditions taking a down turn are the major three responsible factors of sickness in the small scale sector.

In one of the study it was observed that with liberalization and globalization the domestic products of leather becomes internationally competitive both in terms of prices and quality of standards. This sector is dominated by small-scale units and lacks technological up gradation and in house research and development. Due to lack of modernization, outdated technologies, and pollution problem and shortage of raw material the performance of this sector is stumbling.

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44 Ibid p. 18-19.
Jahngir Mohd (1997) observed that the small-scale units are set up with low equity base and owners remain dependent more on borrowed funds for meeting the fixed assets and working capital requirements. He further stated that most of the entrepreneurs at the implementation stage of the projects deviate which ultimately leads to overrun cost. It was further stressed that for completion of the projects entrepreneurs hire additional loans. Due to these additional funds the equity base of the entrepreneur becomes more bleak and as a result sickness prevails more in SSI as compared to medium and large scale industries. It was suggested that if nursing is done properly, with sincerity, with strict discipline the possibility of rehabilitation arises of sick units positively.

A study team appointed by the Haryana unit of all India federation of small and rural industries in 1997 to investigate the reasons of sickness. The study team observed that the basic factor which is responsible for sickness is delayed payments by the mother units to their ancillaries. It has been suggested that mother units should make the payment to the unit well in time. So that these units can improve their financial health.

Himcon (1997) conducted a study on behalf of SLBC, "Incidence of industrial sickness in SSI sector in H.P." The main objectives of the study was to find out the causes of sickness. The team found that incompetent management, first generation entrepreneurs, faulty planning, frequent change in key personnel, poor industrial relations increased interest burden, faulty marketing strategies, tough competition, reliance on Govt. purchase, poor advertisement, lack of capital misutilization of assets, delayed payments to supplies, improper choice of machinery, under utilization capacity, high labour cost, non availability of law material, problem of availability of skilled labour, industrially back ward area. Delay in sanction of working capital loan, high incidence of sale tax, natural calamity and recession etc. factors are responsible for industrial sickness. The

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\[\text{\(^{47}\text{Op. Cit p. 16.}\]  
\[\text{\(^{48}\text{Himcon, "Study Report of SLBC on "Incidence of Industrial Sickness in SSI Sector in H.P." 1997.}\]
team suggested that financial institution should give need-based working capital and reduce the interest rate in case of sick units.

Jo-Hui-Chen (1998)\textsuperscript{46} revealed that the policy planner must be able to understand the determinants of business failure rates, so that they will have some idea of which factors influence business failure rates. He is of the opinion that with out an adequate understanding of why business firms fail the policy maker will be unable to design the proper economic incentives to create more and better jobs for their constituents. The study suggests that the wage rates, labour growth rate, proprietorship income, personal income, new business formation, corporate income tax, outstanding debt, development assistance programmes, and university R&D play a major role in influencing business failure rates, for the total manufacturing sector. The study points out that policy makers can effectively use local/regional policy instruments to bring the current business failure rates to the designed level more easily with in high technology industry groups then with in the total manufacturing sector and low technology industry.

Hasija M.M. (1998)\textsuperscript{50} stated that in developing countries including India is giving particular stress to increase the employment opportunities for the labour force and to attain the balanced regional development. The researcher emphasized that government has provided some special facilities through different policies and programmes for the growth and development of small-scale industries. The researcher further stated that in the process of development only those units which are profitable, dynamic and efficient are expected to survive and those are inefficient and unlivable are likely to eliminated in the process of competition in a free market economy. The researcher opines that natural principle of survival of the fittest is viewed as a positive factor rather than other factors.


Keshyap (1998)\(^1\) stated that the main causes of non performing assets and industrial sickness are lack of adequate and effective appraisal, imbalance in plant and machinery, inexperienced management, wrong selection of consultants, lack of financial resources, lack of coordination between financial institutions and banks, inadequate follow-up, faulty product mix, defective financial planning, diversion of working capital to sister concerns, dishonesty and lack of integrity of the promoters, with drawl of incentives, political interference, deterioration of law and order situation in the region/country, death of key personnel, dispute among partners, mushrooming of units in particular area, poor industrial relations and inadequate check on purchases etc. and suggested that government should restore the facility of concessions to the entrepreneurs.

Mishra and Karan (1999)\(^2\) observed that small-scale industries is helping in generating employment and creating wealth in Bihar. The authors pointed out that decline in production sales and profitability has been noticed because of improper procedure of granting grants. Further it has been ventilated that poor performance of SSI is due to lack of adequate and timely working capital, absence of marketing facilities, under utilization of installed capacity and rising operational costs etc.

Soundara Pandian (1999)\(^3\) observed that non availability of raw material, fanatical constraints, lack of technical know how, lack of training and extension services, management problem, lack of quality control, high cost of production due to input cost, lack of communication and market information, poor quality of raw materials, lack of storage and warehousing facilities, lack of export and lack of promotional strategies are the major bottlenecks in the development of village industries. The author emphasized that magnitude of sickness in rural industries is high as compared to large industrial units and SSI’s. It was suggested that unless a strong raw material base in rural areas in created, rural industries with

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employment potential can not be sustained. The author emphasized that Govt. should strengthen the suitable policy programme and should built up a strong material base to save the rural industrial.

The one of the study SE.B.I. Very recently identified 142 vanishing companies. It was found that 42 companies in Gujrat, 24 companies in Delhi, 18 companies in Maharasthra, 10 companies in Tamilnadu, 9 companies in Madhaya Pradesh and 8 companies in West Bangal have vanished. The study points out that number of defaulters are more in these industrialized states. It was further stated that Department of Company affairs has formed seven task forces (region wise) which will be monitored by central coordinating committee. These task force will be chaired by the secretary the department of company affairs and SE.B.I. Chairman shall supervise the operations/functioning of the industries in the country.

NEED OF THE STUDY

The growing incidence of Industrial sickness which is spreading like a cancer in all industrial sector all over the world. Every developed country like USA, UK, Japan and France and developing countries like India and other are also affected by this disease. Therefore, it is essential to rehabilitate these sick units without any further delay so that the pace of economic development can be maintained.

Industrial sickness is a problem which causes anxieties to parties viz. The entrepreneurs, the workers who may be under threat of losing their jobs, the finances, and finally the Government – which being the guardian of national interest. Industrial sickness in India has grown rapidly since 1980 especially in the small scale sector. In 1980, there were 23,149 small scale sick units which increased to 2,21,530, in the year 1998. These figures make it clear that heavy amount of money is involved in these sickunit, which is raising various questions

\(^{34}\) The Economic Times New Delhi, 20\textsuperscript{th} June 2000.
\(^{55}\) Sharma L.R. "Industrial economics", International Centre for Distance Education and Open Learning, H.P. University, Page 126.
about the efficacy of industrial policy. The rapid growth and magnitude of industrial sickness has become a puzzling issue not for the present time but for future also. It has become a matter of grave concern for all those who are associated with the industrial units directly or indirectly. The society is also affected a lot due to the closure of units. "The failure of a unit is an event which brings a lot of mental torture to entrepreneurs, managers and to their families". The sixth plan document has rightly recorded, that the phenomenon of industrial sickness not only leads to aggravate the problem of unemployment but also renders infrastructure, capital investment and generally creates adverse climate for the industrial growth. The increasing trend of sickness in industrial units, has been a cause of serious concern for planners, investors and policy makers.

In such situation, every effort needs to be made to check this serious problem. The question is being asked from us that why an industrial unit become sick? The reason may be many but the prominent reasons are underdeveloped infrastructure, inadequate financial assistance, faulty planning, delayed payment for Govt. and other purchases, frequent power failures, non-availability of standardised raw material, lack of modernisation, lack of managerial skills etc. All these reasons of sickness have attracted the attention of all concerned people. It may be noted here that the problem of industrial sickness does not generate over night. It is a long process and is like a silent severe disease in all sectors of industrial economy of India. Obviously, an industrial back ward state like Himachal Pradesh cannot be an exception.

Himachal Pradesh, which was carved on the map of India on 15th April 1948 after the merger of various princely states. It is a hill state and offers little for the establishment of industries. As a result of this attitude of the State Govt. the state remained industrially backward state. When some areas of Punjab were merged with the Himachal Pradesh after the reorganisation of the state on November 1966, the government undertook certain measures for developing the

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57 Sivrangan USHA and Nahika Chandra, "Is small sick?" The Economic Times May 18, 1989.
state. This endeavor of the state government gained a major fillip in the year 1971 when the state was accorded full statehood. At present out of 61 lakh population of this hill state 8,01,012 people are unemployed and despite of various self-employment opportunities being provided by the state government, the rising unemployment problem is not being routed out. The existing infrastructure facilities are inadequate to meet the new requirement of new investment in the state.

In Himachal Pradesh the large scale industries are providing employment to 26103 persons where as the small scale sector is extending employment opportunities presently to 1,14,451 persons. The performance of this sector is not satisfactory as it has shown a deteriorating trend since long. If the rising trend of sickness of this employment generating sector is not checked, unemployment can drastically increase. At the end of December 1983 their were 216 small scale industrial sick units in Himachal Pradesh. The number of these units has increased to 735 as on 31.03.2000. This has questioned the validity and reliability of the Industrial Policy of the State Govt.

The natural resources of the state has not been exploited fully, which are in abundance. These natural resources needs to be exploited more scientifically and systematically without disturbing the environment of the state. The need of the hour is to develop the industries only in those areas where the raw material is available. The electronic industry can be developed in the state as the state provides a dust free environment which is essential requirement of this industry.

The supporting agencies and the state Govt. have initiated a number of steps for extending assistance to this vital sector of the state economy in the form of granting tax concessions and subsidies to the entrepreneurs. But these efforts of the Govt. and other supporting agencies have not been able to bring desired results. The number of sick units in the state has shown an increasing trend. The reasons for this may be many but important reasons are the less developed infrastructure with in the state, non availability of raw material, location of the industries and lack of entrepreneurial skill among the people. The loan outstanding report of the Himachal Pradesh finance corporation has shown that
huge sum of loan amounting to Rs. 1369369604.56 as on 31.3.99 blocked in these sick industries. The administration of the state Govt. has been adopting several measures to help revive and rehabilitate these units. The frightening proportion of an abrupt spurt of sickness among small scale units in the state have posed a serious problem concerning industrial sector in the state.

The much talked, liberalised and globalised policy of the Govt. has not brought any respite and solution to the challenging problem. Considering the necessity of taking up such a crucial problem of modern industrialisation, which is having a national importance, an attempt has been made to find out the reasons, magnitude of sickness in three districts of the state i.e. Kangra, Solan and Sirmour. In addition to it the review of literature points out certain gaps. No such study has been under taken keeping in view the research gaps and necessity for knowing the extent and magnitude of Industrial sickness, the present study has been under taken. An endeavour has been made through this study to fill the gap. We have attempted to assess the incidence of sickness of industries in the above named districts. so that the preventive measures can be suggested to minimise the problem of sickness in the state.

The need of the hour is to revive and rehabilitate the sick units. This will help in bringing solace to those who have invested a huge amount in these sick units Within the state. Through in this study, we have tried to present the main reasons of sickness of industries and suggest the measure which can be used to solve this serious problem.

Objectives: –

In order to study the present problem of industrial sickness in small-scale sector, the study has been carried out with the following objectives: –
1. To study the institutional frame work for investment in Himachal Pradesh.
2. To study the extent of industrial sickness in SSI of Kangra, Solan and Sirmour district.
3. To Highlight the causes of sickness and the main problem faced by the entrepreneur and impact of government policies and facilities on the role of entrepreneur.

4. To suggest the remedial measures in small scale sector to meet the challenge of industrial sickness.

Scope of the Study

Himachal Pradesh was accorded a full statehood on 25th January, 1971, at that time the total population of the state was 30,60,434. The state was industrially backward and Government initiated certain steps in the direction of acceleration of industrial development. The first industrial policy of the state was adopted during 1952 but more emphasis was laid on the development of industries during the eighties. The government with the passage of time established the number of industrial area at Parwanoo, Barotiwala, Baddi, Mehatpur, Paonta Sahib, Kala Amb, Parel, Bhambla, Bilaspur, ReckongPeo, Electronics Complex at Chambaghat (Solan), Nerchowk, Sanasrpur terrace etc. Industrial Estates at Solan, Dharampur, Raighat, Pandranu, Kangra, Jawali, Maighal, Saigloo and Dehra-Gopipur were established. But the incidence of sickness of industries has shown an increasing trend. The present study does not take in to consideration all the 12 districts of the states, but the study has been carried out in three districts, mainly Kangra, Solan and Sirmour, the scope of the study is limited to only these districts so far industrial sickness is concerned. We have taken into consideration the rate of sickness for three years i.e. 1996-97, 1997-98 and 1998-99. The parameter for judging the magnitude of sickness has been taken as suggested by the definition of the sickness. Mainly profitability and loss position determine the magnitude of sickness of any industry. Therefore we have also used the same parameter in the present study. We have selected only 3 distts out of 12 distt. Therefore, the small scale units which are located in these distts. are the subject matter of this study. The definition for the small-scale units has been taken as has been suggest by the Government. As a small-scale sector unit is one.
“A unit engaged in manufacturing, servicing, repairing processing and preservation of goods and is engaged in the manufacturing of parts, components, sub-assemblies tooling and having investment in fixed assets in plant and machineries not exceeding Rs. 1 crore”.

A brief review of the distt under study has also been given here. Hence the scope of our research is limited to Distt Kangra, Solan and Sirmour which we selected deliberately. Kangra district lies between 31-40’-32-25’ longitude and 75.35’ – 77.5’ latitude and is bounded on the South West of Una district, on the North West by district Gurdaspur of Punjab, on the North by Lahaul and Spiti and Chamba district, on the East by Kullu and Mandi districts, while in the South it touches Hamirpur district. The elevation generally varies from 5.00 meters to 5500 meters from the mean sea level. As per the report of Geological Survey of India, the district Kangra has vast reservoir of mineral and lime stone which is the basic raw material for manufacturing cement. In addition to it, 61.33 percent of the area are covered under fertilised crops such as wheat, rice, maize, oil seed, sugarcane, potato and tea etc. and sufficient quantity of wool for hosiery industry is also available.

The major concentration of industries in Kangra district is in Nagrota Bhagwan, Sansarpur terrace, Kandrori, Mohlti, Damtal, Kangra and Jawali.

Solan district is located between the longitudes 76.42 and 77.20 and latitude 30.05 and 31.15 North and it is bounded by Shimla district in the North by Ropar district of Punjab and Ambala district of Haryana in the south, by Sirmour district in the East and by Bilaspur district, in the West Mandi district touches the boundary of Solan district in North East.

In Solan district most of the area is under the existence of Lime stone, Dolomite and Gypsum etc. The lime Stone varying from Cement grade to Chemical grade which occurs at Darlaghat, Kashghat, Range, Kakarhalli and belts. The dolomite lime stone approximately about 52 million tons reported at Nalagarh. In addition to its gypsum. Sand and roofing slates are found in abundance at various places which are being used in various
developmental and construction works. In forests, Chil and kail are found at higher elevation whereas Bhabar grass, firewood are found in lower elevations.

The major concentration of industries in the Solan district is in Parwanoo, Baddi, Barotiwala, Chambaghat, Nalagarh and Deonghat.

Sirmour district lies between 77°01′12″ and 77°49′40″ east longitude and 30°22′30″ and 31°01′20″ North latitude except dun valley. District is bounded by Uttar-Pradesh and Haryana and touches the boundaries of Solan and Shimla districts. Sirmour district is fairly rich in mineral wealth. The main minerals are lime stone and gypsum. These are being used by local industries as well as by the sugar and paper industries of the adjoining states. In minerals, lime stone which have huge deposit approximately 200 million tons varying form cement grade to chemical grade, occurs at sataun, manal and Hyona to Kamroo. The deposit of gypsum is found at Bharli and Kangra. Apart from these minerals, minor minerals like sand, stone and Bajri are being used in various construction and developmental works. In addition to it maize, ginger, potato, turmeric wheat and rice are grown in the Kiardadun Valley. The plum and apple are grown at Rajgarh. For the processing of these products, industrial areas at Paonta Sahib and Kala Amb have been developed.

Amongst these districts the industrial township of Paonta Sahib, Parwanoo, Baddi, Chambaghat and Damtal are the major development projects taken by the State Government for development of these districts.

These three districts have the district advantage of infrastructure facilities such as better transportation, communication network, market, skilled labour etc.

**Methodology and Research Design**

The industrial development in Himachal Pradesh in real meaning made its beginning when the state was accorded full statehood on Jan 25, 1971. Since then the Govt. is making all out efforts to augment the pace of industrial development in the state. It initiated number of measures and announced various
industrial policy statements to achieve the objective of the industrialization. The state Government extended number of facilities and various concessions to the entrepreneurs to motivate them for establishing industrial unit in the state. The department of industries and industrial development–corporation developed various industrial estates. As a result of these efforts of the state Government a number of industries were established within the state, in private, co-operative and Government sector. The objectives of the present study is to analysis the rate of sickness in the industrial sector. In order to achieve this objective we have attempted to study the serious problem of industrial sickness with in the state.

In order to study the problems of such serious and important nature, the application of appropriate methods and adoption of a scientific frame of mind are an essential requirement. This offers great help in the collection of reliable information so as to arrive at final out come of the research. To accomplish this objective we selected three districts of the state for the purpose of this study. We emphasised on the in–depth analysis of the working of the small–scale industries in district Kangra, Solan, and Sirmour. To prove the problem further we employed a "case study" method of research. The case study method has been defined as:

"Case study is a comprehensive study of a social unit be that a person, group, social institution, distinct of community. A business enterprises is a system, composed of interrelated and interdependent sub–system involving interaction among people. This interdependent system has certain formal levels. Growing up spontaneously around these formal activities are interactions which involve the social animal, man, with all his biases and preferences. Management effectiveness depends upon day to day routines of the enterprise involving complicated man machine interactions."^58

“Case study refers to the intensive investigation of a particular unit. It is the technique, which considers all pertinent aspects of a situation. This method is termed as social microscope.”

“Case study is a method of exploring and analysing the life of a social unit, be that a person, a family, an institution, cultural group, or even entire community, says P.V. Young”

The case study method stresses to know everything about the single unit. Keeping in this mind we elicited information from the following units situated in the districts named above:

### TABLE : 3.1

<table>
<thead>
<tr>
<th>Forms of Org.</th>
<th>Kangra</th>
<th>Solan</th>
<th>Sirmour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Prop.</td>
<td>9(56.25%)</td>
<td>3(37.50%)</td>
<td>8(72.72%)</td>
<td>20(57.14%)</td>
</tr>
<tr>
<td>Partnership</td>
<td>4(25%)</td>
<td>1(12.50%)</td>
<td>-</td>
<td>5(14.28%)</td>
</tr>
<tr>
<td>Pvt. Ltd. Comp.</td>
<td>-</td>
<td>3(37.50%)</td>
<td>3(27.27%)</td>
<td>6(17.14%)</td>
</tr>
<tr>
<td>Pub. Ltd.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Co-operative Inst.</td>
<td>-</td>
<td>1(12.50%)</td>
<td>-</td>
<td>1(2.85%)</td>
</tr>
<tr>
<td>Govt. Companies</td>
<td>3(18.75%)</td>
<td>-</td>
<td>-</td>
<td>3(8.57%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16(45.71%)</strong></td>
<td><strong>8(22.85%)</strong></td>
<td><strong>11(31.42%)</strong></td>
<td><strong>35(100%)</strong></td>
</tr>
</tbody>
</table>

Sources: Compiled by the investigator.

(The figure in brackets shows the percentage of the units).

On the basis of the information given in above table No. 3.1. It is clear that 45.71 percent units are located in District Kangra, 31.42 percent units are located in District Sirmour and 22.85 percent of the units are situated in district Solan.

The table further reveals that 57.14 percent of these units are sole proprietorship,

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14.28 percent of the units are in the partnership, 17.14 percent are private limited companies and others which are 11.42 percent are found in public and cooperative institutions. These units have been found to be sick. These units have been selected on the basis of convenience sampling. Convenience sampling has been defined as - convenience sampling is one a sample is selected according to convenience of the sampler. This convenience may be in respect of availability of source list, accessibility of the units etc. and used in the following cases.
1. When the universe is not clearly defined.
2. Sampling units is not clear.
3. A complete source list is not available.\(^6\)

The definition for sickness of an industry has been adopted as the same, which has been given by the Reserve Bank of India and the Government of India. The definition states, "Sick units is that which has incurred a cash loss for one year and in judgement of the bank is likely to continue increasing cash losses for current year as well as in the following year; and unit has imbalance in its financial structure, such as current ratio less then 1:1 and there is a worsening trend in debt equity ratio, i.e. total outside liabilities to the networth."

The study group set by the Reserve Bank of India to frame guidelines for follow up a Bank Credit and defined the industrial sickness as, "With a steady erosion of profitability the borrowers liquidity declines and the first sign of difficulty is delayed payments to creditors, leading ultimately to default, with further deterioration in profitability, followed by losses, current liabilities exceeds current assets and networking capital becomes a net working capital deficit. Reserve Bank of India gave another definition " A small scale industrial unit is considered sick when: (1) Any of its borrowed account has become as doubtful; i.e. Principle or interest in respect of any of its borrowed accounts has remained over due for a period exceeding two and half years. (2) There is a erosion in the networth during the proceeding to accounting years."

In the present study both kinds of the data i.e. primary and secondary has been used. The primary data has been defined as—primary source is one where the data is collected from related sample as first hand information. Whereas secondary data has been defined as — the data is collected from the publications of the respective agencies. During the course of study, we approached the owners/managers of the unit for obtaining the desired information. Initially the, owners or their agents were reluctant to share any kind of information regarding the operation of their unit or they were not willing to give the information, why their unit became sick? After explaining the confidential nature of the research, they gave some information. This information was obtained, with the help of well designed schedule. The investigator visited all the units personally and obtained the information by the owners/managers. Earlier the investigator contacted 120 units which were in small scale sector.

The definition for small-scale sector was changed vide order No. S.O.1288 (E) dated on 24th December, 1999. As a result of this definition only 96 units were contacted. Out of the 96 units only the 35 units became ready to share the information so we restricted our study to 35 units only for which the information were easily available. 61 units backed out and refused to share any kind of information for any purpose. To obtain information from owners/managers of unit was an uphill task. The units of the study are geographically widely spread in these districts. The visits were normally arranged and we obtained the information, which had wide coverage.

The secondary data has been collected from various published sources, which have been given in the following table as below: —
<table>
<thead>
<tr>
<th>Type of Data</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Industrial Data</strong>&lt;br&gt;a) Total no. of registered units in H.P.&lt;br&gt;b) No. of registered units in Distt. Kangra, Solan and Sirmour.&lt;br&gt;c) No. of sick units in H.P.</td>
<td>Directorate of Industries govt. of Himachal Pradesh.</td>
</tr>
<tr>
<td></td>
<td>–do–</td>
</tr>
</tbody>
</table>

| **2. Financial Data**<br>a) Loan composition of HPFC as per health aspects composition of HPFC.<br>b) Loan composition of HPSIDC as per health assets composition of HPSIDC.<br>c) Total finances by the nationalised Banks. | Annual Reports of HPFC and – unpublished record<br>Annual Reports of HPSIDC and unpublished records.<br>Official record of the Zonal office UCO Bank Shimla. |

**Development of Schedule:**

The schedule is the form containing some questions of blank tables which are filled by the respondents after getting information from the informants. Schedule is used in direct interviews and direct observations are filled by the researcher.

In order to get the information of three industrial advanced districts well designed schedule was developed by the researcher. And with the help of the schedule primary data has been collected.

The schedule has been divided into 3 parts; First part relates to the general information of the industries. It contains the name of the unit, data of establishment, nature of activity undertaken, forms of organization, qualification and experience of the promoters.
The second part contains the information of the industrial units, namely capital structure, term loan sanctioned, term loan disbursed own investment, hired capital, subsidy.

Working capital requirement, working capital disbursed, fixed assets gross turnover. It further classify the net profit/net losses for the last three years. The third part contains the causes of sickness. These are divided into Financial problem, infrastructure problem, marketing problem, production problem, human resource problem, research and development, management problem and miscellaneous problems.

Financial problem include cost overrun, high interest rate, higher wages, non-availability of finance from institutions and high cost of inputs and raw material. Locational disadvantage, costly transportation and distance from the nearest railway station constitute infrastructure problem, lack of market for the product, stiff competition constitute marketing problem. Large investment in fixed assets, diversion of funds and dispute between partners constitute management problem.

Improper machinery frequent breakdown, shortage of supply, lack of raw material and under capacity utilization constitute production problem. Lack of skilled labour, labour unrest constitute human resource problem.

Consultancy, quality control and services from the experts constitute research and development problem.

Whereas government policy and natural calamity constitute miscellaneous problems.

Field Survey

After finalising the schedule field visits were carried out to different industrial units for the collection of requisite data. A great difficulty was experienced in acquiring the information. It was found that a significant number of entrepreneurs and managers were not ready to supply the information due to one or the other reasons as;

a) Disclosure of information

b) Secret information
Therefore, with more requests schedules were filled with the information provided by their entrepreneurs, promoters and managers of the units concerned.

Analysis of Data

As has been reported in the preceding pages that in order to collect information for the purpose of the present study, we have employed case study method. We have collected information from 35 sick units as reported at table No. 3.1. We have given the information regarding the case units, which have been selected with the help of convenience sampling method. The desired information has been elicited with the help of well-designed schedule (Annexure – I). The information has been collected by personally visiting the units under study.

After explaining the purpose of the study the schedule was filled up by the researcher. The purpose was to obtain desired information so we attempted to create informal environment. The researchers have given enough time to the person from whom the information was to be obtained. He was at liberty to speak as much as he can regarding the industrial climate and the climate prevailing in his own unit. The information thus collected has been analyzed in the form of percentages. Thus we have employed percentage method to analysis the sickness magnitude existing in the states small-scale sector industries. In order to arrive at conclusion we have used the spearman’s co-efficient ranking method. Though other methods could have been used but this method we found more relevant and useful. The major parameters like project cost, sale of the unit and profit and loss position of the unit concerned for the last three years. The co-efficient of correlation have been found to be the real indicator to judge the performance of the unit. Rank difference method always test the validity of the information supplied by the promoters/managers.
Method of Rank Difference

Under this method in place of individual measurement the rank of the item in the whole group is taken. It is assumed that if the two series are correlated the rank of each item and its pair would be the same or approximately the same. Spearman's used the following formula for calculating the coefficient of correlation by method of rank differences:–

\[ r = 1 - \frac{6 (\sum d^2)}{n (n^2 - 1)} \]

or

\[ r = 1 - \frac{6 (\sum d^2)}{(n^3 - n)} \]

Here \( d^2 = \) square of differences of the rank of individual pair of two series
\( n = \) number of items

In case of equal ranks, an adjustment for calculating the correlation has been made. And for three parameters of group of times (cost, sale, loss) the value has been added as many times as the number of such groups.

The formula used is mentioned as under:

\[ r = 1 - \frac{6 (\sum d^2 + 1/12 (m^3 - m) + 1/12 (M^3 - M_2) + \ldots \ldots)}{n^3 - n} \]

Here 1/12 (m^3−n) the value of \( \sum d^2 \)

M – stands for number of items whose ranks are common.

Finally observations have been analysed and interpreted.

Limitations

As the present research has been conducted with the help of schedule, which was filled by the researchers. The information was collected from the promoters and managers of the unit concerned, which were visited by me. Since

\[ \text{Ibid p. 288.} \]
the schedule has been used to collect the required informations, but it may be noted here that this method suffers from various drawbacks. These drawbacks are also the drawbacks of the study. Though an attempt has been made to design a representative sample and cover more areas of these three districts where the study has been conducted yet it can not be assumed a true representative sample. Therefore, the generalisation suggestions made on the basis of this sample can not be generalized.

This has been reported that we selected 96 units which were considered to be sick on the basis of information made available to the researcher by the appropriate authorities. Out of these 96 units only 35 units offered to share information with the researcher. Hence, the problem of nonresponse is very serious. Majority of the people do not like to discuss the problem of sickness due to various apprehensions. The required information was not divulged by the promoters/managers on one percent or the other.

Most of the organizations/units did not supply the profit and loss account/balance sheets or any other document which can be considered helpful in this study. The researcher with great difficulty could manage to get the information. The intentions of the researchers are always doubted by the respondents, we also have the same limitation. The majority of the units do not attach any importance to such researchers. They always feel that there is no use of such researchers and they do not share the information.

The present study also suffers from the indifference attitude of the promoters towards relevance and utility. It is basic limitation of the study.

In the words of A. Maslow, "If we were to wait for conventionally reliable data, we should have to wait for ever." 64

Taking this statement into consideration whatever information we could collect we presented in this study. The observation arrived at through this small information can not be generalized. Therefore, these are to treated true for the specific cases.

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