The economic policy of the Government sharply focuses attention on curbing concentration of economic power, decentralisation of industries, promotion of integrated rural development and eradicating unemployment and poverty during the period of planning. As such in the scheme of economic planning of the country development of Small Scale Industries as well as cottage and village industries occupies a very important place. From the beginning of planning, the industrial policy statements of our Government have recognised the role of Small Scale Industries in the development of the national economy because they provide large scale employment with relatively small investment, they offer a method of ensuring a more equitable distribution of the National income and facilitates an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. There are a host of other economic factors also which help explain the strength of small industry and fight for its promotion (1).

They are.

(a) Large industry is very often capital intensive and accumulation of capital takes time. During the intervening period small industry which is very often labour intensive world, therefore be able to stay on.
Large industry has often access to cheap capital and small industry to cheap labour and these respective advantages and handicaps may keep the cost scale in balance, so that small industry may not suffer from any special handicap.

For minimisation of risk, a new line is opened on a small scale.

Where the material to be worked upon is not uniform, where the processes are not amendable to a quick repetitions and where the products are not standardised, large scale methods are not suitable nor economical, and here Small Scale Industry thrives on its own strength.

Market imperfections, due either to consumer resistances or transport costs, also limit the size of market and the scope and feasibility of large scale industry.

Small industry may under charge the consumer on the assumption that it is really a low cost industry, by not providing for underwriting or otherwise, adequate depreciation or remuneration for the factors of production owned or hired from friends and relatives. And the prices so set at these costs may be competitive with that of large industry.

Not to attract the provisions of the anti-trust legislation or to gain public sympathy, large industries fixes a price higher than normally warranted and this price umbrella protects small industry.

Besides these economic factors, there are good many sociological explanations advocating for the rapid growth of this sector. The important of them are:

There exists in man a desire to gamble, so that he takes risks irrespective of consequences, and small industry provides and outlet for this desire;

Man often enjoys the independence or status of an entrepreneur for its own sake, and this is possible for more men in small industry than the giant organisations; and

Man starts this own business to provide employment to the members of his family who may be unemployable or less gainfully employable elsewhere

Recognising the important role that the small industries play in the national economy, the Central and State Governments, have taken active steps to promote and foster their growth. Eventually many problems pertaining to
production, distribution and finance of both endogenous as well exogenous nature creep in the functioning of Small Scale Industries and affect their health. Consequent on these problems the growth of this sector has been terribly affected and good number of units have turned to be sick and the resulted sickness in the small sector has assumed very serious proportion. There has been a good deal of discussion in recent times on the urgent need for finding both preventive and curative solution this great threat of industrial sickness particularly in small scale sector.

The present chapter makes an attempt to define the problems of sickness with its magnitude in the Indian context and to analyse and interpret various factors causing sickness in small industries. Effort has also been made to highlight some remedial measures in order to prevent as well as cure the problem.

Sickness – Its Meaning, Definition, and Symptoms

There are many symptoms of industrial sickness but not a single one is sole indicating. When several of these symptoms are exhibited simultaneously, there is cause of anxiety. Since it is a qualitative aspect, it is difficult to set definition. However many institutions and organisations have come forward to look into the problem with a view to help the affected units by devising suitable revival measures and in process many yard-sticks to define sick units have emerged.

The committee of Rationalisation of Return has made the first attempt to define a sick small scale unit in the year 1972. It has defined sick units to be those, whose accounts are chronically irregular [2]. The Varshney committee on
sick units appointed by the state Bank of India has defined sick unit as one which fails to generate internal surplus on continuous basis and depends for its survival on frequent infusion of external funds [3]. To illustrate further, it has laid down that a unit is considered to be sick if it has any one or more of the following symptoms [4].

(i) A unit having negative equity.

(ii) A unit incurring continuous cash losses so that a major portion of its total equity and owned funds... (50% say about) is wiped off [5].

(iii) A unit financed under entrepreneur scheme incurring continuous losses amount to say 15% or more of total working capital (owned funds) difference and current liabilities.

(iv) A unit whose working capital advance accounts with the bank, clear irregularities (not covered) by the advance value of inventories and receivable which are current persist for a period of 12 to 18 months and show an increasing trend [6]. Continuous decline in scale and operations below the Break-Even for such long periods coupled with irregularity in the accounts can be taken as a definite indication of sickness [7]. Irregularities caused merely by the inadequacy of limits should not be taken into account for the purpose.

(v) A unit which has stopped its production operations as a result of internal or external factors for sufficient long period of, say, six months.

The small industries development organisation on has also determined certain criteria for identifying sick unit [8]. They are:

(i) During the short period, the unit running of irregular accounts with the bank continually, or

(ii) Over a period of time, the sickness could be measured in terms of erosion of net worth of the unit and the rate at which it was eating away it is capital, which could be more than 10% per annum or

(iii) The utilisation of installed capacity being less than 20% (9) or

(iv) The units closed for the last six months.
The units closed for the last six months

Normally, industrial sickness is a time phenomenon; all of a sudden an industrial unit does not become sick unless there is a major accident or catastrophe causing heavy irrecoverable loss to the units. Inclination towards sickness is warned by a host of signals such as frequent interruption in production, irregular, bank remittances, default in payment of interest of term loan and installments under utilisation of capacity, heavy outstanding statutory payments, decline in technical efficiency, operational ratios, quality of product, Level of stock etc. After then, through a stage of incipient sickness, the unit finally turns to be a sick unit by exhibiting various symptoms of sickness at different degree. In chart (No.1) various signals and symptoms are shown in a pictorial fashion to explain how these variables are the product of time in the phenomenon of industrial sickness.

The time lag of various stages in the sickness phenomenon inclination towards sickness, incipient sickness, sickness and 100% erosion of net worth is very important for determining the rate of acceleration and subsequently the future condition of the industry if no curative measures is taken. It is reported to be low rate of acceleration of industrial sickness during the period of negative working capital to cash loss and from cash loss to 50% erosion of net worth but very high from 50% to 100% erosion of net worth [10]. When ever the signals are noticed and symptoms are exhibited, it is necessary to analyse the trends of these signals and symptoms for determining level of sickness in the light of their nature with a view to ensure timely and appropriate rehabilitation package. This analysis is very important, particularly for the industries in the small sector because the duration from starting of sickness to 100% erosion of net worth is very small and it is many
**CHART 1**

**SIGNALS AND SYMPTOMS OF SICKNESS**

**HEALTHY UNIT** → **INCLINING TOWARDS SUCCESS** → **incipient SICKNESS** → **SICK UNIT**

**SIGNALS**
- Frequent interruption in production
- Non-submission of data to bank
- Irregular bank accounts
- Default in payment of interest and installment
- Underutilisation of capacity
- High turnover of personnel
- Accumulation of outstanding salaries & P.F.
- Distributed industrial relations
- Decline in technical efficiency
- Decline in operational ratios
- Deterioration in the quality of product or service
- Decrease in the level of stock

**SYMPTOMS**
- Persisting shortage of cash
- Continuous decline in sales & accumulation of inventories
- Use of creative accounting
- Failure of internal cash generation
- Delayed payments
- Increase in customer
- Absence of provision for accrued
- Frequent request for loan
- Low morale of employees
- Delay in audit of annual accounts
- Delay in showing statements to bank
a times beyond the strength of the owner to work against this high acceleration sickness process.

Causes of sickness

Factors causing industrial sickness can broadly be divided into two main categories; viz-internal causes and external causes. Internal causes which are otherwise known as management inefficiency or management fraud are controllable big improvement in efficiency and effectiveness of management performance, whereas the controllability of external causes falls beyond the scope of the industrial units because they are caused by change in the social political and national and international economic environment. The chart (No.2) classifies various factors resulting industrial sickness.

It is often found that there is inadequate ex-anti evaluation of the projects with regard to technical feasibility, such as, up to date technical know-how, process of production, locational advantages and disadvantages etc; and economic viability, such as, cost of production, break-even-point, economic size of the project, investment in fixed assets, volume of demands etc.

Even if some units are started with well appraisal of technical feasibility and economic viability, they fall sick because of the factor that the short run derivative plans are not structured in consonance with the long run strategic plans. This problem arises due to lack of continuous evaluation and control of the project by the management. Thus mis-match among the sequential as well as simultaneous operations of irregularity in evaluation and control of various
Chart 2

CAUSES OF INDUSTRIAL SICKNESS

INTERNAL CAUSES

EXTERNAL CAUSES

Infrastructural Bottle necks
Financial Bottle necks
Govt Control & Policies
Market Constraints
Extraneous

LACK OF PROPER MANAGEMENT

DEFECTIVE PLANNING
Technical Feasibility Economic Viability

DEFECTIVE IMPLEMENTATION & CONTROL
Wrong means Wrong people

DEFECTS IN FUNCTIONAL LEVEL
Production Management Personnel Management Financial Management Marketing Management
functional activities, such as, production, personnel, financial and marketing cause sickness among the industrial units.

From the side of external causes infra-structural bottleneck result in non-availability or irregularity in supply of critical material inputs, non availability of key persons and labour inputs, transport problems, climatic problems and chronic power shortage etc. Financial bottlenecks are due to lack of bank facility and non-availability of finance from the external sources. Market saturation is also another greatest factor which brings negative direction to the business success. Other causes included in external group which also adversely affect an industrial unit, are rapid technological revolutions, and Governments fiscal policies, particularly, "States Tax Trapeze Syndrome"(II). It is a fact that right treatment of a patient always follows the right diagnosis of ones diseases. Similarly, the appropriate revival measures in a sick unit are possible, only when the defects causing sickness are correctly detected with their point of incidence and possibility of their creating other subsequent defects.

Since the causes described above are in a vicious circle, a detailed analysis will help us to have a better in sight into the problem. Such an analysis is presented in the chart (No.3)... As there are various causes of sickness remedial action for one cause alone would not result in an overall relief to sick units. Besides, it is neither possible nor practical to take preventive or remedial actions separately for each and every weakness identified. This is the reason for which a thorough analysis of the problem is needed and on the basis of the analysis an integrated approach need to be adopted for remedial measures towards major causes of sickness.
DROP IN INTERNAL CASH GENERATION

Poor cash management

Deliberate Diversion
Unplanned version of funds
Poor Debt Management
Poor Credit Management
High inventory cost
Loose & Unproductive expenditure

DROP IN SALES

Problem in Production
- Machine breakdown
- Improper maintenance
- Low labour productivity
- Poor quality materials
- Lack of production
- Late supply from subcontractors
- No quality control
- No coordination
- Improper product mix

Problem in Marketing
- Competition
- Recession
- Low quality techniques
- Irregular
- Poor sales effect
- Obsolescence
- Defective advertisement

Problem in Labour
- Poor industrial relations
- Low wages
- Irregular wages
- Low productivity
- Strike & lock-out
- No motivation
- Poor labour mix

Problem in material
- National shortage
- High cost overage payment
- Poor quality
- Uncertain supplies
- Lack of planning
- Poor material management
- Transportation

Increased cost of Material
- Material wastage and spoilage
- High inventory cost
- Huge amount bought in an inflationary market
- Monopoly in local market
- Transportation

Increase in Overhead
- Inefficient production
- High cost of borrowings
- Increased administrative cost
- Un-planned capital expenditure
- Poor management in indirect material, labour & expenses

Increase in Taxes
- Sales Tax
- Excise
- Octroi etc.

Source: Chart prepared by Vasant Desai has been modified.
Magnitude of the problem

The incidence of industrial sickness has assumed serious proportions in recent years which is reflected in the increasing number of sick industrial units and alarming increase in the amount of funds locked-up therein. The details relating to the distribution of sick industrial units in India from 1985 to 1997 along with their outstanding bank credits is presented in Table 3.1. A glance through the Table helps one to access the magnitude and seriousness of the problem. The total number of sick industrial units increased from 99,668 units in 1985 to 223,809 units in 1991 and further increased to 237,400 units in 1997. The annual compound growth rates of the number of sick industrial units indicate that the overall growth rate of 6.28 per cent from 1985 to 1997.

However, the growth rates before 1991 is higher at 16.74 per cent than the growth rate after 1991 which is 0.34 per cent. It is, therefore, clear that the number of sick industrial units increased at a lower rate after the introduction of the New Industrial Policy of 1991. In other words, it can be said that the New Industrial Policy of 1991 kept the growth rate of sick industrial units at a lower rate. The Table also shows that the share of sick Small Scale Industrial units among the total sick industrial units increased from 98.22 per cent in 1985 to 98.96 per cent in 1991 and further increased to 99 per cent in 1997. This clearly indicate that the Small Scale Industrial units occupied the highest share in the total sick industrial units and the Non-SSI sick units became less important by contributing around one per cent of the total sick industrial units in India. The table also shows that
### Table 3.1

Distribution of sick industrial units 1985-1997 with their outstanding Bank Credit (Amount in crores of Rupees)

<table>
<thead>
<tr>
<th>Years</th>
<th>Small scale sick units</th>
<th>Non-SSI sick units</th>
<th>Total sick units</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Amount outstanding</td>
<td>No. of units</td>
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<tr>
<td>End June 1985</td>
<td>97890</td>
<td>(98.22)</td>
<td>1778</td>
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<td></td>
<td>954.65</td>
<td>(25.09)</td>
<td>2850.52</td>
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<tr>
<td>End December 1986</td>
<td>145776</td>
<td>(98.67)</td>
<td>1964</td>
</tr>
<tr>
<td></td>
<td>1306.10</td>
<td>(03.79)</td>
<td>3568.39</td>
</tr>
<tr>
<td>End December 1987</td>
<td>204259</td>
<td>(99.11)</td>
<td>1839</td>
</tr>
<tr>
<td></td>
<td>1797.31</td>
<td>(28.73)</td>
<td>4459.0</td>
</tr>
<tr>
<td>End December 1988</td>
<td>240573</td>
<td>(98.97)</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>2141.00</td>
<td>(27.29)</td>
<td>5564.3</td>
</tr>
<tr>
<td>End December 1989</td>
<td>N.A</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td>End March 1990</td>
<td>218828</td>
<td>(98.96)</td>
<td>2269</td>
</tr>
<tr>
<td></td>
<td>2426.94</td>
<td>(25.95)</td>
<td>6925.59</td>
</tr>
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<td>End March 1991</td>
<td>221472</td>
<td>(98.96)</td>
<td>2337</td>
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<td></td>
<td>2792.04</td>
<td>(25.93)</td>
<td>7975.78</td>
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<td>End March 1992</td>
<td>245575</td>
<td>(99.13)</td>
<td>2149</td>
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<td></td>
<td>3100.67</td>
<td>(26.88)</td>
<td>8432.63</td>
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Note: ACGR (Annual Compound Geometric Rate)
### Table 3.1 (continued)

<table>
<thead>
<tr>
<th>Years</th>
<th>Small scale sick units</th>
<th>Non-SSI sick units</th>
<th>Total sick units</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Amount outstanding</td>
<td>No. of units</td>
</tr>
<tr>
<td>End March 1994</td>
<td>256452</td>
<td>3680 (26.87)</td>
<td>2500</td>
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<tr>
<td>End March 1995</td>
<td>268815</td>
<td>3547.2 (25.82)</td>
<td>2391</td>
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<tr>
<td>End March 1996</td>
<td>262376</td>
<td>3722 (27.07)</td>
<td>2374</td>
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<tr>
<td>End March 1997</td>
<td>235032</td>
<td>3609 (26.18)</td>
<td>2368</td>
</tr>
<tr>
<td>ACGR (1992-1997)</td>
<td>0.34</td>
<td>2.77</td>
<td>0.74</td>
</tr>
<tr>
<td>Overall ACGR (1985-1997)</td>
<td>6.32</td>
<td>12.10</td>
<td>2.84</td>
</tr>
</tbody>
</table>

**Note:** Figures in the bracket indicates percentage growth rate.

**Source:**
the growth rate of the number of Small Scale sick units are almost equal to the growth rates of total sick industrial units.

It is evident from the table that the amount of outstanding as bank credit of the sick Small Scale Industrial units ranges between 25 per cent and 29 per cent of the total outstanding bank credit of the total sick industrial units during the period of study. The outstanding bank credit in the case of Non-SSI sick units is in the ranges between 71 per cent and 75 per cent of the total outstanding bank credit of the total sick industrial units.

It is, therefore, inferred that nearly 99 per cent of the sick units are small scale in their nature but the outstanding bank credit in Small Scale Industrial units is less than 29 per cent of the total outstanding credit locked-up in sick industrial units. This indicates that the average outstanding bank credit in Small Scale Industrial units is less than average outstanding bank credit in Non-SSI sick units.

The trends in the sickness of industrial units can be studied in a comparative fashion, and therefore, the figures are expressed as their percentage growth over corresponding figures of the previous years. The results are presented in Table 3.2. It is observed from the table that the annual percentage growth rates were positive during the period from 1985 to 1990 in the case of number of sick Small Scale Industrial units, outstanding bank credit in sick small scale units, while the annual percentage growth rate of Non-SSI sick units were have both negative and positive values. This indicate that before the introduction of New Industrial Policy of 1991, the sickness in small scale units was spread at a fast rate. However, since 1991 annual percentage growth rates become both
<table>
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<th>Small scale sick units</th>
<th>Non-SSI sick units</th>
<th>Amount outstanding</th>
<th>No. of units</th>
<th>Amount outstanding</th>
<th>No. of units</th>
<th>Source: Computed form Table 3.1</th>
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<td>-2.38</td>
<td>-0.71</td>
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<td>-0.25</td>
<td>+1.52</td>
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<td>End March 1996</td>
<td>+10.42</td>
<td>+2.38</td>
<td>+0.71</td>
<td>+2.40</td>
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<td>+0.71</td>
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<td>End December 1989</td>
<td>+17.79</td>
<td>+10.63</td>
<td>+5.12</td>
<td>+22.46</td>
<td>+14.69</td>
<td>+25.18</td>
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<td>+25.18</td>
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<td>End December 1974</td>
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<tr>
<td>End December 1973</td>
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<td>+10.63</td>
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<tr>
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<tr>
<td>End December 1971</td>
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<td>+14.69</td>
<td>+25.18</td>
<td>+28.10</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

**Source:** Computed from Table 3.1

**N.A.:** Not available.
negative and positive and also fluctuations in the annual percentage growth has been declaimed. This indicates that after the introduction of the New Industrial Policy 1991, the annual percentage growth rates in industrial sickness has declined in the case of both Non-SSI and SSI sick industrial units.

It is, therefore, opined that the problem of sickness in Small Scale Industrial units is declined comparatively after introduction of the New Industrial Policy of 1991.

**Revival measures for sick units**

Sickness of small industries is not confined to a particular product, state or region, it is more or less uniformly spread over all states and regions, and thus a national problem. The number of sick units in the country is increasing year by year and the rise in outstanding bank advances against them bears testimony to the fact that the industrial sickness of small industrial units is not a thing of the past or more passing phase but a continuous phenomenon. It is now a burning question as how best to detect and rectify the problem and rehabilitate the concerned small units in the interest of the national economy. However, solution to this aggravating problem will come broadly in the following two ways:

1. To identify the sick unit as early as possible and to analyse and diagnose its cause(s).

2. To nurse back the sick unit to good health immediately with appropriate remedial measures with a view to turnaround the sick units into an economically viable. Turn around here means a substantial and sustained positive change in the performance of the business [13].

The responsibility of the process of preventing and curing industrial sickness and rehabilitation of the sick units cannot be solely fixed either on the
entrepreneurs, nor on the banks and other financial institutions, who extended their financial help to them nor on the Government institutions, it is a combined and joint responsibility of those who are interested in the restoration of health to the sick units. The entrepreneur is responsible for the reason that his own capital is blocked in, and he is yet to be rewarded for the venture to risk in starting the business. Banks and financial institutions are responsible for the reason that if the units are turned around, regular interest payment by the units will be reinstituted and recovery of unpaid interest and capital will be possible. The Government is interested in the revival of the units because of several factors like well being of the employees, loss of employment, protection of product, and above all the contribution to the national economy. The noble process also calls for the help from various other group like management, professional accountants, and technical and management consultants; May be to give them a wider scope for their professional growth; the role of the management, financing institutions, Government and professionals, in turning around a sick unit is discussed below.

Role of Management

There are different stages to be carried out by the management in the process of turning around the sick units; these are management change stage, evaluation stage, emergency stabilization stage, and the return of normal growth stage(14). In the first stage there is needed a change in the top management when the analysis reveal that the sickness is due to their wrong direction to the business activities and subsequent failure to recognise the problem and take necessary preventive steps. This type of a change, though very often followed in many industrial units Non-SSI sector, may not be applicable to many small units
particularly when the unit is a proprietary concern or the top management has a strong ownership position. For these causes, change in management means a change in heart, a new thrust or an ability to take tough decisions to save their business [15]. Change of management is also sometimes required in middle and operating levels of management when it is revealed that the causes of sickness creep through their continuous irregularity and negligence to follow up the policies flowing from the top management. But, before taking step to change the management we are to examine whether the ill health of the business is due to inefficiency and fraud of the managers or due to some environmental factors, the controllability of which fall beyond their scope. If the conclusion arises that the continuous sickness could have been avoided by the appropriate managerial tacts, then only responsible managers should be changed otherwise replacement of old and experienced managers world further aggravate the situation. Nevertheless, the existing managers and newly appointed managers with an encouraged spirit should employ their skills and tacts on a warpath to fight against the evils affecting their business.

The second stage in the evaluation stage where the management has to generate various possible alternatives with a view to obtain viability of the unit and to evaluate them in a thread bare fashion in the process of evaluation the management has to take into consideration, the objective of taking the unit in the quickest possible time from its current poor performance to at least one step ahead towards revivals. The various roles played by the management in this stage are as follows:
(a) Determination of the area where he has to concentrate his efforts to get the greatest leverage and to develop plan of action accordingly;

(b) Drawing focus of the plan towards generating cash inflow because most of the sick units at this stage have negative cash flow. Possible way to prevent cash outflow are also to be formulate;

(c) Review of credit policy in consonance to the requirements of cash and working capital in this take up situation. Availing a longer credits period, granting shorter credit period, deferring accounts payable are some of the steps in this process;

(d) Reduction of excess man power and stock of common materials particularly which are easily and timely procurable at the local market. Segregation of business into segments product wise or operation wise and judge their contribution to the firms profitability in order to drop the segments of profitability and negative cash generation;

(e) Structure a cost reduction programme in al the remaining segments with tight standards, however, it has simultaneously seen that standards so set are not unattainable. In this programme, alternative material and labour mix are to be evaluated in terms of cost and profitability what ever may be to plan the quality of the products should not be allowed to decline;

(f) Evaluation of all the segments by means of SWOT (Strength Weakness Opportunity and Threat) analysis with a view to capitalise strength and opportunities and minimise weakness and threats;

(g) Conversion of loosing segments into cash by disposing them as going concern. This will strengthen the cash position of the existing segments; and

(h) Communication of these plans to all the concerned.

This stage is very crucial for the management in the total process of rehabilitation of sick units because rural turning around initiated is at this stage only. This stage makes the unit revenue-wise smaller but helps in reducing cash of outflow and delimiting activities of negative profitability.

The next stage of turning around is the stage of stabilisation which aims at a reasonably acceptable return on investment. Here the activities are reviewed
once again in the light of both cash generation and profitability. Emphasis shifts to a three pronged strategy (16). They are

1. Concentration on profitability in addition to cash flow;
2. To attain efficiency in the existing operations; and
3. Peposturing the form to provide a sound platform for medium term growth.

When things slightly improve, there required a strong control system. Since in adequacy of control system is one of the major factors in growing sickness, the earlier control system has to be reviewed in order to wash out the weakness of the system. If the existing control system seems to be inapplicable in the modified organisational context, another tailor made system with appropriate techniques should be introduced. The management in this multistaged process of turning around has to develop strong will power within themselves to reinstate normalacy of various functions in the sick unit.

**Role of Banks and Financial institutions**

It is said that the management gets the sign of sickness of the unit whereas the banker gets the sign of sickness of the industry. Since the banks are the first among the financial institutions to get the sign of sickness of an industry, they have vital roles to play in preventing industries from sickness by their time monitoring systems. A banker should try his best not only to prevent industries from falling sick but also to remove the sickness from the industries. Thus, they have to play two types of roles-preventive and corrective. The following are a few factors, the bankers are to consider, while executing their role to prevent sickness, particularly, in small scale sector.
1. The bankers are to see that the proprietors have not overestimated the revenue or underestimated the cost of their projects. It is noticed that more than half of those units tend towards sickness within a very few years of their commencement. The bankers, in order to avoid such over or underestimations, should insist on a better accounting information system. If it is beyond the scope of the units to go for skilled or professional accountants, the bankers and other financial institutions associated with these units extended their help in preparing genuine accounting information for the purpose.

2. When a proprietor of a small industrial unit applies for a loan, it is required that a representative of the bank should extend its cooperation (if possible by sitting with him) in drawing up a budget for the proposed unit together with the cash plan sensitivity tests on key figures should be performed at this stage to determine whether the unit has the slightest chance of success (17). If the inference is negative, the loan should not be granted. If it has a chance of success, and the loan is granted, these tests should be done every six months to judge the progress and efficiency.

3. The credit worthiness of a prospective borrower is an important factor, which all bankers and the officers of other financial institutions should examine in the light of various quantitative and qualitative variables. The quantitative variables are the different financial ratios computed from the financial statements and Performa statements presented by the firm for their current and future operations. The various qualitative variables that the lending officers to examine are the entrepreneurship quality, existence of export-import trade barriers in the industry, management competency, classification of overall economy as boom, recession or somewhere in between whether the firm is influenced by external factors, such as oil price fluctuations etc. The banks have to assess the overall success of the unit in a mixed model by taking into consideration all the quantitative and qualitative variables.

4. Continuous inspection is also solicited from the banks and financial institutions in order to totally the position presented in the documents and the position prevailing in reality.

The banks and financial institutions are also to play an important role in the revival of the units, which have already become sick. Before taking any action for their revival these units, the banks should know, what are the reasons for the sickness and how to remove them. The decision of the bank, whether to nurse a sick unit or not should be very quick because a delayed decision may further aggravate the initial or continuing sickness. Before any nursing programme is
under taken by the bank for reviving a sick unit certain general principles should be kept in mind by the banker. They are:

a) First of all there cannot be any margin of error in the decision making by the bank because the margin has already been exhausted. So the decision has to be correctly calculated, well timed and appropriated to the particular unit undergoing nursing;

b) Generally sick units have considerable debt burden, which increase their Break-Even point to very high level. To generate a surplus, the unit has to operate at higher level of operation. Again it should be seen, there is sufficiency in market to absorb the increased output;

c) Thirdly, the operation at a higher level require additional finance and, therefore, the source of such finance should be worked out. As the owner of the unit does not have found by that time, the entire burden generally falls on the banker. The banker, for this reason, has to closely monitor the utilisation of fund;

d) Generally, the banker has to reduce the usual margin for giving the additional fund and also has to rephrase the original as well as the new repayment schedule to a longer period. The bankers should consider these units, as far as possible, in allowing a relaxation in the penal rate of the interest and longer gestation period, and

e) Last but not the least, the nursing programme should not be delay because longer the decision process the greater will be the magnitude of the problem.

The Central banking authority of the country has also to play an equal role in identification and rehabilitation of sick units. May be in pursuance of it's responsibility of maintaining an efficient banking system and balanced growth in the industries. In India, the Reserve Bank of India has directed all banks to form a cell to rehabilitate sick units. These cells consist of experienced, specialised and technical staff to deal with the central and the regional offices of the banks and term lending institutions are asked to have continuous monitoring over the activities of sick industrial units. In 1985 November guidelines were issued to ensure a coordination approach between the commercial banks and the
Government owned term lending institutions in determining the viability of a unit after being identified as a sick one. In this connection Reserve Bank of India from time to time has to set guidelines and broad framework of detailed parameters for incorporating concessions and reliefs in the rehabilitation packages for the sick units.

The Reserve Bank of India conducts viability studies on sick industrial units from time to time. The viability structure of sick industrial units in India for the three selected years (1985, 1991, 1997) is presented in Table 3.3.

It is understood from the table that among the total sick industrial units the number of viable units were 7246 in 1985, which increased to 17081 units in 1991 but slightly declined to 16883 in 1997. Of these viable units, the small scale units were 6505 in 1985, 16140 units in 1991 and 16220 units in 1997. This indicates that while the number of sick SSI units increase at a high rate between 1985 and 1991, than at high growth rate is negligible between 1991 and 1997. On the other hand, while the amount outstanding in viable SSI sick units increased from Rs. 236.84 crores in 1985 to Rs. 693.1 crores in 1991, it was declined to Rs. 479.31 crores in 1997. It is, therefore, clear that the average bank credit outstanding in viable SSI sick units is declined considerably in 1997.

Among the viable SSI sick units the number of units put under nursing programme increased from 2079 in 1985 to 13224 in 1991 but declined to 10539 in 1997. The percentage share of SSI units put under nursing programme in total sick SSI viable units increased from 31.96 in 1985 to 81.93 in 1991 but it declined to 65% in 1997. This indicates that the financial institutions provided financial
Position of sick units identified as viable and pre-nursing programme by banks for the periods ending March 1985, 1991 and March 1997.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Particulars/year</th>
<th>Viable units</th>
<th>Total sick units</th>
<th>Units under nursing programme</th>
<th>Units under Nursing programme of as percentage viable units</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of units</td>
<td>Amount outstanding</td>
<td>No. of units</td>
<td>Amount outstanding</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>SSI sick units</td>
<td>6505</td>
<td>236.84</td>
<td>97890</td>
<td>954.65</td>
</tr>
<tr>
<td>B</td>
<td>Non SSI sick and weak units</td>
<td>741</td>
<td>1651.11</td>
<td>1778</td>
<td>2850.52</td>
</tr>
<tr>
<td>C</td>
<td>All units</td>
<td>7246</td>
<td>1887.95</td>
<td>99668</td>
<td>3805.17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>SSI sick units</td>
<td>16140</td>
<td>693.10</td>
<td>221472</td>
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<td>B</td>
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<td>C</td>
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<td>17081</td>
<td>4392.73</td>
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<td>10767.82</td>
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<td>235032</td>
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<tr>
<td>B</td>
<td>Non SSI sick and weak units</td>
<td>663</td>
<td>3664</td>
<td>2368</td>
<td>10178</td>
</tr>
<tr>
<td>C</td>
<td>All units</td>
<td>16883</td>
<td>4143</td>
<td>23400</td>
<td>13787</td>
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</tbody>
</table>

Source: RBI Report Trend and Progress Bank, India, November 1998 pp 140; Appendix Table 11.2.
assistance for the revival sick SSI units through nursing programme at a greater between 1985 and 1991. However, between 1991 and 1997 the commercial banks were given less important to revival programmes for SSI sick units in India. This because the financial institutions tried to improve their capital base and control their non performing assets inorder to meet the capital adequacy norms fixed by the Reserve Bank of India following the recommendation of the Narashimaham committee on financial sector.

Role of Government

Since independence, the Government has been giving more emphasis to the promotion and development of small scale sector because of many factors, such as, creation of immediate and permanent employment on a large scale at a comparatively lower cost, meeting substantial part of increased demand for consumer goods and simple producers goods, facilitating mobilization of resources of capital, skill and labour, and integration of the development of these industries with the rural economy on the one hand and with the large scale industries on the other. The Government frames various industrial and credit policies for rapid development of Small Scale Industries. It is ultimately, therefore, the responsibility of the Government to see the smooth running of the industries in this sector. The responsibility of smooth running includes the responsibility of preventing industrial sickness and rehabilitation of sickness. While executing the great responsibility of preventing small industries form ill health the government has formulated various credit policies from time to time and directed the national commercial banks and Government owned term lending institutions to take care of the problems faced by these small units in the country.
As the Reserve Bank of India acts as the lender of last resort to the commercial banks, so as the Government stands as the source of financial help for the small units. Other policies of the Government in connection with this problem are, stipulation of the number of such units to be set up and the amount of credit to be advanced during a particular period, development of market for these units and rehabilitation of sick units in the sector, etc. Besides, these policies of the Government have established different institutions to look after various functional aspects of Small Scale Industries.

Recently the Government has passed Sick Industrial Companies Legislation (18) in 1985 with an objective of early detection of sickness in an industrial unit and to evolve a package of measures to remove uncertainty about the working of the sick units. Further, the Government of India has established the Board for Industrial and Financial Reconstruction (BIFR) under the above act for determining the preventive, ameliorative, remedial and other measures which need to be taken in respect of Sick Industrial Companies and for the expeditious enforcement of the measures so determined. The board has a wide ranging powers, with regard to revival, change or take over of management, reconstruction, amalgamation with other companies also the wind during up of the affected units. The implementation of various provisions of the act depends on Governments monitoring through the appropriate executive. There are so many Small Scale units which are not in the form of companies but need the Governments support for their survival and prevention of sickness, Government, therefore, has to take a few additional measured in order to ensure good health on all the Small Scale Industries in the country. They are:
1. To establish specific institutions, which will look after the interest of only Small Scale Industries in the (company, partnership firms and all proprietary concerns) in the country, particularly, in preventing and curing their sickness.

2. Since, many units turn sick due to lack of marketing arrangement, and integrated marketing system can help the units to face stiff price competition in the open market. The task of marketing the product of these units should be entrusted by the Government to some competent agencies having experience in modern marketing management.

3. Again, when the units suffer from liquidities problem in the absence of sound equity base, the Government should consider providing “risk funds” or soft loan at a nominal service charge only to those units that are set up by technical entrepreneurs. The Government can also help sick units by giving them relief by waving excise duties, sales tax, etc. until they reach the Break-point.

4. There should be periodical meeting of representatives, from the commercial banks, financial institutions and Government officials, with a view to sorting the problem standing in the way of smooth working of small scale units.

5. It is noticed that some units become sick due to difference in sales tax prevailing in the neighbouring States. It is therefore, high time that the sales taxation system is overhauled and rationalised on commonly accepted economic principles whereby some states do not gain in revenues at the cost of other states and industrial growth is not achieved in the former through industrial sickness in the latter. So it calls for a national policy on sales taxation to be evolved by the Ninth Financial Commission.

Role of Professionals

According to a study conducted by the Calcutta based National society for the prevention of industrial sickness (NSPIS), in 95% of the cases, resulting causes for sickness are faulty management, impractical plannings lack of financial control diversion of resources and lack of production control and cost reduction programmes. Whatever may be the cause, actual disease starts long before an industrial unit culminating in topsy-Turvy in its financial management, marketing personnel management, etc. become visible, when the position is found difficult to overcome. Thus, a diagnosis of the problem is required at an early stage; and in
the process the task of signaling the sickness fully rests on the responsibility of professional accountant.

The accountant has to diagnose sickness of an industrial unit by a continuous study of balance sheet Profit & Loss account and Funds Flow Analysis in the conventional way and also periodically by means of recent accounting models available for forecasting sickness. He has to analyse the problem by means of various accounting ratios such as Total Debt/Total Assets, Net working capital/Total Assets, Working Capital/Total Assets etc. but in this analysis the significance of the ratio should be reviled through the parameters available for the Small Scale Industries. The application of his skill in the context of small industries is very much required for correct interpretation of the above mentioned accounting tools.

A joint effort of different professional (accounting, engineering, marketing, personnel, etc.) connected internally or externally with the organisation is always required in reviewing marketability of the products, diversification and variation in the product mix, strengthening marketing management, increasing production, improving industrial relation budgetary control and management information system, and was on with financial institutions. Thus the professionals have to play significant role in preventing sickness of an industrial unit. Curing sickness also calls for support from different professionals. As the success of a scheme for rehabilitation of a sick unit depend upon cooperation of all concerned in the units, all the departmental heads or functional leaders of the unit, with a professional approach should put their heads together for the implementation of the scheme. Unless this integrated approach of cohesion or integrated action of
various professionals (departmental managers in case of internal professionals, cell heads of consultancy agency or firm in case referred to outside consultancy) is taken loose ends of various problems in sick unit cannot be tied up and the revival scheme may not be successful. A professional accountant has to play a crucial role in this coordination. Being the guiding philosopher in both installation and implementation of a plan for rejuvenation of a sick unit, would be able to ensure the organisational goal with the level of budgetary control in his hand in as much as well drawn budget, sets down overall goal and departmental sub-goals and strict operation of budgetary control ensures the fulfillment of departmental objectives with the ultimate achievement of over all goal and prosperity and there by bailing a sick unit out from the red to the green fields of success [19].

The question may arise from many corners that can the industrial units in small afford to these highly paid accounts and other managerial and technical professionals to utilise their skills in their various functional operations. This problem can be sorted out if the Government makes a provision to establish consultancy cell in banks, financial institutions and other promotional agencies, consisting of qualified professionals in various fields of industrial operation. Establishment of such cells will prevent industrial sickness by giving continuous advice regarding the smooth functioning of the units and at the same time help in the revival of the sick units by closely monitoring the implementation of rehabilitation packages.
Conclusion

It appears from various pronouncements made by our Government that the policy towards industrial sickness may undergo transformation and hence there arises a need for taking a fresh stock of the economic evil. On going phenomenon of industrial sickness, particularly, in small scale industrial sector has cannouflaged the outstanding performance of the industrial economy in recent times. The economies of developed countries like United States an Japan are also affected by this evil, but it does not mean an inevitable state of affairs in our economy. We should know that for a developing country like ours, this economic evil of industrial sickness is a very costly proposition in terms of loss of employment utilisation of capacity and failure in regional balance etc. The banks and other financial institutions are also greatly affected when faced with the repercussions of industrial sickness, particularly, in recycling the funds. Solution to this economic evil in the form of preventive and remedial steps should be initiated by the interested parties.

Identification of industrial sickness is needed at an early stage for determining the units to be aided, isolating the units which should be allowed to die, ascertaining the responsibility of project, person or situation, etc, determining the remedial steps and above all, preventing such pit-falls in the future. The interested parties in eradicating the evil should play their role efficiently, the entrepreneurs should not shift their responsibility by blaming labour, material, market and Governmental policies, rather realise that the business ultimately has to survive and progress and to move forward with new strength. Managers with in the organisational setup should realise that industrial sickness does not develop all
of a sudden except in cases of accidents, natural catastrophies or other external causes in most cases, it arises from within the unit itself. They are to ensure that their skill and professional expertise help the unit to run various functions with effectiveness. The banks and financial institutions are to take a role that incorrect appraisal especially regarding sales potentials, and marketing competence, delay in appraisal, sanction and disbursement while washing and window dressing of reports and poor system for monitoring and follow up should be avoided as far as practicable. So far as this task is concerned the bankers are to consider them as a true sense of banker not merely as deposit collector. The interested parties should go for initiating situationistic remedial measures rather, than impressionistic situations generalised ones, to overcome sickness in small industrial sector.

Giving priority to this National problem, the banks should further diversity their activities by ear-marking a significant portion of their budget towards providing rehabilitation packages to the sick units specially in small sector.

In playing it is crucial role, in preventing industrial sickness particularly in small industrial sector, the Government has to discourage all policies like price control over licensing, free imports where not necessary, and such others which contribute to this unwanted phenomenon. It is worth noting here the task of the Government to ensure that the units in this sector are not affected by 'Sales Tax Trapeze' syndrome by structuring a suitable national policy on sales tax. To provide the help of professional services to this sector of industries, consultancy undertakings should be established in the public sector, further it is recommended that the Government should set up another Industrial Reconstruction Bank to look after exclusively sickness of industries in small sector. This bank and other
financial institutions in taking care of this problem should fill up majority of their posts with the experienced and qualified professionals drawn from different disciplines engaged in small industries. The increasing sickness in our economy also throws some reflections on the performance of the existing infrastructure (organisation & to promote this sector) in servicing the small units. So there is a need to stream-line their activities through effective performance evaluation.

To sum up, industrial sickness in general and small industries in particular can be reduced if all the concerned i.e. owner, bankers, labourers, professionals management, financial institutions and Government etc. take the matter with the right earnestness, to study the causes and the cures through their temporary sacrifices with a common sense of dedication. But the approach should be "Stitch in time save nine."
REFERENCES


15. Ibid, p. 94


