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Causes of industrial sickness in Textile units in Coimbatore district- an analytical study

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Abstract
The business failure is an event which has always been painful to entrepreneurs, managers, investors, customers and all others concerned. It increases unemployment and decreases the availability of goods and services. The shareholders and creditors lose their savings and future business. Industrial sickness may be termed as 'technical insolvency' which occurs when a firm is found unable to meet its maturing obligations. It may also refer to 'real insolvency' where the total value of the firm's assets is found smaller than its liabilities. In a strict legal sense, industrial sickness is interpreted as 'bankruptcy or liquidation when its ceases its operations'. However, bankruptcy or liquidation is the ultimate conclusion of sickness and, therefore, the two are quite identical.

Keywords: Entrepreneurs, Insolvency, Firm's assets, Bankruptcy, Sickness

Introduction
The business failure is an event which has always been painful to entrepreneurs, managers, investors, customers and all others concerned. It increases unemployment and decreases the availability of goods and services. The shareholders and creditors lose their savings and future business. The customers are deprived of the products they used to purchase for consumption. A model which predicts potential business failure at the earliest, would serve to minimize, if not eliminate, such hardships by providing ample warning in advance about the impending dangers to all concerned. In Indian industrial environment, serious concern is generally echoed on the progressive increase in sickness in industry as the large resources are blocked in sick enterprises. However, a comprehensive forewarning system for corporate sickness is still lacking which is urgently needed to detect potential business failure as early as possible so that timely action could be initiated The action may involve change in the management of the firm, grant of additional funds or funding by other organizations jointly to check further sickness and time and effort to be spent on diagnosing the causes of sickness and on deciding the kind of remedial actions required. Sickness in an industry is an organic process in the life history of a unit. A healthy unit may grow sick temporarily and may recover. Factors that causes of sickness could be external or internal, where the former usually affect an industrial units in the group while the latter may affect a particular unit only- The sickness occurs in several stages. A healthy unit, with good cash profit and positive values of net working capital and net worth, may tend towards sickness, if the cash profit becomes negative along with other financial parameters. It is this initial stage o "financial sickness that requires careful monitoring. For such a purpose, a forewarning system which signals the probable failure of industrial concerns before any loss is inflicted upon the concerned parties could prove to be greater boon.

Objective of the Study
To analyse the causes for industrial sickness in textile units in Coimbatore district.

Statement of the Problem
An industrial enterprise may be sick if any of its functional are is, viz., production, marketing, finance, personnel and corporate management develops some abnormality. However, the term abnormal functioning with reference to an industrial unit is vague, since it has different meanings for different people. The workers in a unit may take the functioning as abnormal if they do not get their wages and increments in time. The management and investors may regard the functioning as abnormal if there is an inadequate return on their investment. Similarly, banks and other financial institutions are more concerned with the repayment of their loans and the unit's ability in meeting its contractual obligations through generation of reasonable surplus. However there is a need for common denominator to bring uniformity and to avoid personal judgment in identification of industrial sickness.

Concept of Industrial Sickness
There are a variety of definitions of sickness which are based on different norms, viz., generation of surplus, erosion of equity, liquidity and solvency position, the amount and period of irregularities.
Industrial sickness may be termed as 'technical insolvency' which occurs when a firm is found unable to meet ts maturing obligations. It may also refer to 'real insolvency' where the total value of the firm's assets is found smaller than its liabilities. In a strict legal sense, industrial sickness is interpreted as 'bankruptcy or liquidation when its ceases its operations' [1]. However, bankruptcy or liquidation is the ultimate culmination of sickness and, therefore, the two are quite identical.
A 'Sick Industrial Company' has been defined as an 'industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to pr exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year [2].
'Sick Industry' may also be defined as one whose financial viability is threatened by adverse factors present and

continuing. The adverse factors might relate to management, market, fiscal burden, labour relations, or any other. In case, the impact of these factors reaches a point when a company begins to incur cash losses leading to erosion of funds, there is a threat to its financial viability.

A unit may be considered sick, if it has incurred cash losses for one year and in the judgment of any financial institution, it is likely to continue incurring cash losses for the current year as well as the following year and which has an imbalance in its financial structure such as current ratio of less than one and worsening debt-equity ratio [3]. This definition seeks to emphasis the operational performance and financial position which are interrelated.

According to Companies (Second Amendment) Act, 2002, "'Sick Industrial Company' means an industrial company which has:

i) The Accumulated losses in any financial year equal to 50 per cent or more of its average net worth during four years immediately preceding such financial year; or
ii) Failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company."

Overview of Industrial Sickness in India

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

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4 lakhs unit were also reported to be ailing. And this position also remain same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an outstanding bank credit of Rs. 4874 crores.

Symptoms of Industrial Sickness

Some of the important signals of sickness are:

- Frequent breakdown of plant and equipments
- Decline in capacity utilization
- Decline in technical and labour productivity
- Non- submission of data to banks and financial institutions
- Decline in quality of product or service
- Persisting shortage of cash
- Decline in financial ratios
- Continuous decline in market price of shares
- Default in the payment to suppliers, employees, banks and financial institutions
- Low morale of employees
- High rate of rejection of goods manufactured
- Financing capital expenditure out of funds provided for working capital purposes
- Rapid expansion and too much diversification within a short time
- Diversification of funds for the purposes either than running the units.

Causes of Industrial Sickness

1. Internal Causes

1.1. Mismanagement

The most important internal cause of sickness is mismanagement. Faulty managerial decision regarding production, finance, marketing and personnel and poor control can ruin a business. According to a study of the Reserve Bank of India sickness of more than 52 per cent of large industrial units can be attributed to mismanagement, 23 per cent to market recession, 14 per cent to faulty initial planning and other technical defects and 11 per cent to other causes.

1.2. Faulty Initial Planning

Wrong location of an industrial unit might lead to its ruin. If the place of industrial location lacks infrastructural facilities, the industry is bound to face difficulties. Another fault is lack of proper demand forecasting for the products to be sold. Small industries start production without making a market survey and plunge into difficulties later. Some industries start with a defective capital structure and some spend lavishly on unproductive assets. Moreover, inability to raise adequate finance to withstand operational losses is a severe constraint.

1.3. Financial Problems

A growing shortage of working capital appears to be a real constraint. The equity base of many small scale units is very weak and slight disturbance in the market puts them into trouble and turns them into sick units.

1.4. Improper Choice of Technology

Small entrepreneurs cannot afford to take technical guidance from experts in choosing proper machinery. An improper choice of technology, unsuitable product mix and single product technology contribute to industrial sickness.

1.5. Labour Problems

Bad employer-employee relations result in strikes, lockouts and even closure of industrial units. If wages, bonus and dearness allowances problems are tackled promptly to the satisfaction of labour, these problems may not cause sickness. The Tiwari Committee in its report on industrial sickness (1984) pointed out the cause of sickness of industrial units. Sickness of 52 per cent large scale industrial units is due to mismanagement, 23 per cent to market recession and environmental factors, 14 per cent to technical factors and faulty initial planning, 9 per cent to infrastructural factors and 2 per cent to labour troubles.

1.6. Bad Production Policies

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

1.7. Marketing and Sickness

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

2. External Causes

1. Power Cuts

A large number of industrial units, particularly in West Bengal and Bihar, face power cuts from time to time. Power cuts are necessitated by the fact that generation of power is much below its actual requirements.

2. Erratic Supply of Inputs
Lack of regular supply of raw materials and other inputs disturb the production schedule causing losses to the unit. This is particularly the case of units depending upon the supply of imported inputs. Also transport bottlenecks sometimes affect the supply of inputs.

3. Recession
General recessionary trends in the market adversely affect the demand for most of the goods resulting in unsold stocks and losses to individual units. Products with high prices like cars, tractors, VCR etc. depend for their sustained demand on easy availability of credit to buyers. If credit is restrained, the buyers are not able to arrange for finance and consequently the demands for such products suffer and ultimately such manufacturing units get sick.

4. Official Policy
Sudden and unfavourable changes in the government policy regarding taxation, export and import can turn viable units into sick units. For example, liberal import policy for a particular product might cause damage on domestic units producing similar products.

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

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

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

8. Finance Constraints
The external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization, credit squeeze initiated by the government policies.

Data Analysis
The analysis given below shows the internal causes for the fall in sales by the respondents.

Null Hypothesis
There is no significant difference among internal causes for the fall in sales by the respondents.

Anova table - internal causes for fall in sales

Source	DF	Sum of Square	Mean Square	F
Between groups	4	12.818	3.204	1.64 ns
Within groups	105	207.182	1.973	

Source: Computed Data from primary data
ns- Non significant at 5 % level

Since the F is non-significant the null hypothesis of no difference in the mean score among different groups of respondent is rejected. The mean score among different groups of respondents is furnished below:

Table 1: Internal causes for fall in sales

Causes	Weighted Average Score	Rank
Increased cost of production	2.954	-
Irregular supplies	2.454	-
Poor marketing efforts	2.864	-
Poor quality of the product	3.364	-
Excessive dependence on one or a few buyers	3.364	-

Source: Computed Data from primary data

It is seen from the above table that, the mean score ranged from 2.454 to 3.364 and it is on par among internal causes for the fall in sales among the respondents.
The following analysis shows the external causes for the fall in sales by the respondents.

Null Hypothesis
There is no significant difference among external causes for the fall in sales by the respondents.

Table 2: Anova table - external causes for fall in sales

Source	D F	Sum of Square	Mean Square	F
Between groups	4	82.562	20.640	13.47**
Within groups	155	.438	1.532	

Source: Computed Data from primary data
**- significant at 1 % level

Since the F is significant the null hypothesis of no difference in the mean score among different groups of respondent is rejected. The mean score among different groups of respondents are furnished below:

Table 3: External causes for fall in sales

Causes	Weighted Average Score	Rank
Competition	2.375	5
Recession in demand	2.500	4
Entry of new sellers	3.125	2
Entry of new substitutes	2.656	3
Govt. policies	4.344	1

Source: Computed Data from primary data

It is seen from the above table that, the mean score ranged from 2.375 to 4.344 and it is higher for external causes for fall in sales-Govt policies and it is least for external causes for fall in sales.

Conclusion
Thus considering the gravity of the problem of sickness, the government has taken various measures. However, some critics observed that the coverage of SICA 1985 is not adequate and some unscrupulous entrepreneurs are trying to turn their units; sick deliberately for extracting various concessions and reliefs. Thus government agencies should be careful in detecting in genuine sick industrial units and to start revival process in right time.

The BIFR was recently under fire from the Parliamentary Standing Committee on Industry for "having failed to serve the purpose for which it was created." It has called for immediate restructuring of the BIFR as well as National Renewal Fund (NRF) so both could deal with growing industrial sickness in an effective manner. It has found that at present the process followed by the BIFR was time consuming and thus was proving costly for workers and trade unions. It has suggested decentralizing the BIFR with the creation of regional branches in the states, where the incidence of industrial sickness is quite high.

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