

Sickness in small scale industries economics essay



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The importance of small scale industry has been increasingly recognized in Manipur as a solution for the problem of scarcity of capital and widespread unemployment and poverty. But it has not served its purposes, started turning sick increasing numbers. The causes of sickness differ from industry to industry. The real or root causes have not been identified and corrective measures have been not taken on the basis of causes. The percentage of population below poverty line is 3.76 lakhs as per 61st Round of the NSSO's Sample Survey (July 2004 to June, 2005). The government, NGOs and private sector are implementing programs aimed at improving governance and accountability of public institution to be able to better respond to the needs of the poor, assisting them economically through creating income and employment opportunities, and improving their access to better services. Employment creation is one of the most viable ways of reducing poverty levels in the country. This wins small scale industries an important place in the economy since the since of medium and large scale sector has crippled their abilities to absorb Manipur's surplus labour. The capital to labor ratio in the small sector is around one-fourth that large scale sector. Thus small scale sector also need less level of investment per job created, offering a rather inexpensive way of accommodating excess labour in the rural and urban areas alike. Small scale sector thus become tool of equitable wealth distribution throughout the state. If approached strategically, thousands of jobs could be created in the agro-based, handlooms and handicrafts industries etc. The present paper highlights the causes and remedies of industrial sickness of small scale industries in Manipur.

1. 2 Literature review:

An attempt is made here to review the existing literature on the subject of industrial sickness. Any literature available on the industrial sickness varies from individual researchers to committee reports, empirical studies to descriptive works and general to specific nature of studies. A brief review of literature in this concerned subject is given as follows:

Nalini V. Dave (1987)¹ in her Ph. D. thesis in 1987 entitled “ Industrial Sickness and Key Area of Management’ have examined the strength and weakness of management practices in textiles units against the norms laid down by various authorities of management science. Bidani & Mitra (1982)² in their book entitled “ Industrial Sickness-Identification and Rehabilitation” have stated that industrial sickness develops gradually and is not an overnight phenomenon.

Mathur (1999)³ made an attempt to identify the major causes of sickness in the small scale industries along with the contributory factors of the entrepreneurs and the commercial banks in the growing incidence of sickness in the small scale industries.

Bhatia and Batra (1997)⁴ in their book titled “ Management of Sick Industries” had collected several papers contributed by experts in the field of industrial sickness. An effort was made in their book, to meet the requirements of Indian industries in managing and monitoring the industrial sickness.

Sahu and Mishra (1992)⁵ in their book entitled “ The Critical Appraisal of Industrial Sickness” thoroughly examined the nature of sickness in Indian industries and outline a model to predict sickness in Indian corporate sector.

Panda & Meher (1992)⁶ made a study, which was interdisciplinary in character, exposing the problems of sickness in the SSI sector from multi-dimensional angles. The study took into account both economic and sociological factors that hinder the healthy functioning of the SSI units in an industrially under developed state like Orissa by undertaking intensive field study at one of the oldest and largest industrial estates of Orissa.

Gangwal(1990)⁷ analyses the causes of 119 sample sick SSI units financed by the Rajasthan state financial corporation and found that the broad reasons of sickness were delay in project implementation, the problems pertaining to the management of the functional areas of production, marketing, finance and personnel and external problems.

As a matter of fact, industrial sickness in the small scale industries in Manipur is an area of great concern nowadays. With an ever increasing population of the state and less scope for getting jobs in public sector, these small scale industries are the only hope of providing a source of livelihood to the local populace. In these present days of down-sizing and right-sizing in government jobs, a proper study of industrial sickness and finding its measures to stop it will be the only means of empowering the people for economic development.

We have selected 50 sample units from the rural areas of the state for the purpose of the study; those with 5 years' existence and not working at

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present have been taken for study. It had also been ensured to give equal representation to different types of industries and only those sick units earlier registered with Industries Department as an SSI have been selected for the study.

Availability of finances, that also in time, is very important for the smooth functioning of an enterprise. But, as can be seen from Table 2, 38.0 percent (19 units) of the sampled sick units under study suffered from the severe problem of delay in disbursement of loans by banks and other financial institutions. Delay in detecting early symptoms of sickness (20.0 percent) and delay in decision and action to rehabilitate the unit (18.0 percent) also affected the units at their troublesome days of sickness. It is also an interesting scene where 8.0 percent (4 units) of the sampled units had expressed an external problem due to over-financing by the banks.

Over and above the foregoing causes, it was found from the field survey that most of the sampled units lack financial discipline and information and hardly have they resorted to financial planning and forecasting with no long term prospective in mind. One hardly comes across among the units preparing cash flow statement. If any authority even wanted to rehabilitate these sick units, the financial statements of the units have to be analyzed. But in its absence, the process itself is big problem.

Another serious problem being faced by majority of the sampled units is that of competition from large scale industries, out of state and even from foreign countries. In the case of Manipur, recent development has shown that trade has become inextricably linked with the development process. Any

prolonged disruption in trade can destabilize the standard of living of the people significantly. The pattern of development in the state has been such that it has come to depend extensively on imports from other states even for the minimal day-to-day requirements. A large, volume of goods including the daily necessities is imported into the state from different part of the country as well as from Myanmar via Moreh. There is no significant item of export from Manipur (Singh, Priyokumar, 2002)¹⁰.

1. 5 Remedies of Sickness

During the past few years, sickness in industries has become a very thought provoking and obvious offshoot of the modern jet age industrial society. It is, however, not a very recent phenomenon and certainly not peculiar only to India. It has become all pervading, touching all countries. But its recent growth and magnitude, recently, is so rapid that it has assumed unmanageable proportions in India in general and in Manipur in particular. It is a continuous process and painful reality of rapid industrialization which starts right from the very beginning of industrialization. The question, now, is how to safeguard properly and utilize effectively the sunken capital of the public and the private institutions in sick units. It is nothing but a choice between opportunity cost for nursing sick units and closure of a large number of sick units thereby resulting into social lost of the economy and a dampening effect on the new ventures in Manipur.

Major reasons for industrial sickness in Manipur can be prevented if we ensure:

that the project is viable

that the approved and clearances for finance and the assistance are available in time under simplified procedures and one windows service

that there is no delay in clearance for importing capital goods and raw materials.

that the project is implemented and commenced as per schedule.

that the action to modify the product mix is in time if there are changes in the market demand

that there is uninterrupted power supply for the industrial purpose

that the entrepreneurs are sincere, efficient and accountable and at the same time, punishment must be awarded for delay, negligence, mismanagement of mis-utilization of funds.

that only the required number of manpower is recruited based on efficiency, skill and competency.

that there are healthy and cordial labour relations.

last, but not the least, there is effective systems and controls at all levels of operations

The following assistances and incentives will be very helpful in preventing the industrial sickness in Manipur keeping into consideration the above facts and figures,

no loan on the specific project till the project becomes economically viable

full exemption from custom duty on all capital imports

holiday on tax

transport subsidy

incentives for increased output

rewards and recognition for full capacity utilization

assistance in marketing of products

1. 6 Suggestions

At the very outset, it has to be said that a strong determination is needed for dealing with the disease of industrial sickness. Otherwise, the same disease is definitely bound to spread to the whole industrial sector. In a state like Manipur where resources are very scarce, every effort should be made for its maximum utilization and the question of resources being kept idle and unproductive should not be tolerated. Otherwise, the ever increasing incidence of industrial sickness may threaten the whole socio-economic setup of the state in particular and the country in general.

The following suggestions are made to prevent and avoid industrial sickness in Manipur.

Role of banks and other financial institution

The steps to be taken to rehabilitate sick units are far more important than the establishment of units. In this context, banks and other institutions must play a significant role. In fact, the funds already invested in sick units can be

realized if these units are revived. If they are not rehabilitated, then they may sink and have to be closed down

In these regards, the following steps gather immense importance:

i) Banks and other financial institutions must undertake a careful project appraisal before assisting an industrial unit. At the same time, financial transactions of their clients must be closely monitored by sending questions and information instead of just receiving periodical but out dated returns from them.

Banks must supervise the assisted units relating to debit and credit balances, forwarding and b made to sister concerns, relatives etc.

One or two staff members of the banks and other financial institutions must be always in charge of periodical inspection of the assisted units so as to ensure its efficiency and proper review of production schedules, stock of raw materials and finished goods.

Any sort of discrepancies in collecting information or from the unit should not be tolerated. The service of efficient financial analysts must be available to each bank branch at short notice.

As a general rule, banks and other financial institution must nominate directors in the industrial units, more particularly those which are likely to detect sickness.

Almost care must be taken in financing stocks of raw-materials and finished goods which are often affected by sharp price fluctuations.

In case of overdrawing, the assisted firms needs to be suggested about its underlying problems and should also be ensured that remedial measures are initiated.

Banks needs to be extra careful when they have to provide large funds to neglected and priority sectors. Such lending should not be at the cost of financial prudence (Simha, S. L. N. 1978)¹⁰.

Role of the Government

In a developing country like India, the Government is often a dominant stakeholder even in privately owned enterprises. The various tax relief and subsidies it provides its ownership or control of the institutions that finances organisations, its enterprises related policies stemming from its overriding concern with industrial development, etc. make it a major stakeholder even in minor enterprises. Its actions often affect the health of whole industries. New units come up through appropriate policies, tax incentives, subsidies, infrastructural facilities, etc. and they also disappear or get sick like a simple magic. The policies of financial and infrastructural support provided or withheld by the government is a determinant of health and sickness of many an industrial unit. Frequent changes in Government policies need to be avoided to reduce industrial sickness.

The Government can play a crucial role by ensuring adequate supply of power, transport and raw materials and taking care that its policies formulated to achieve certain social objectives do not affect the industrial units. The possibilities of creating a fund for the purpose need to be exposed.

The role of professionals

Professionals such as financial analysts, project coordinators, accountants etc. has a big role to play in checking and signaling the industrial sickness through continuous study adopting different models for forecasting of sickness. It should be the joint efforts of accountants, engineers, marketing personnels and production people to avoid sickness and even if so happens, for revival of sick units. But in a small state like Manipur, small entrepreneurs cannot bear the cost of such professionals. In order to overcome such a problem, the state government should make a provision to establish consultancy cells in banks, other financial institutions, District Industry Centres and other Government Departments, consisting of professional in different fields of industrial operations. This will help in smooth functioning of industrial units and at the same time, helps in preventing and revival of the sick unit by closely monitoring the implementation of rehabilitation package.

Role of the entrepreneur

To conclude, the role of the concerned entrepreneur is very important as far as to avoid industrial sickness. It is the sole responsibility of the concerned entrepreneur to avert sickness in the unit set up by him. This can be possible if the entrepreneur does his job properly while preparing his project work, if he understands and pays adequate attention to the deficiencies pointed out by the aspiring officials of the banks and other financial institutions, if he selects the required capital goods carefully, if he appoints only the efficient and required number of worker in time, if he implements his project within his estimated cost and as per time schedule.

