

A Study on Industrial Sickness: Concept and Causes

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ABSTRACT:

Industrial units' declining financial and operational health, which eventually results in their decline or closure, is referred to as "industrial sickness." An overview of the idea of industrial disease, its origins, and its effects on the economy and society are provided in this abstract. The occurrence of industrial disease may have a significant impact on a nation's overall economic development and employment prospects. It has an effect on the supply chain, stakeholders, and the neighbourhood in addition to the impacted industries. Industrial illness may be caused by a number of things. These include internal elements including bad management, poor financial planning, outmoded technology, subpar product quality, labour conflicts, and poor corporate governance. External elements including shifting market dynamics, fierce competition, altered policies, economic downturns, and changes in interest rates also have a big impact.

KEYWORDS:

Industrial Unit, Entrepreneurial Guidance Bureau, Economic Development.

I. INTRODUCTION

Industrial illness has several interrelated causes, and when many conditions come together, the effect might be exacerbated. For instance, poor financial management may cause cash flow issues, which have an impact on both operational effectiveness and the capacity to pay debts. Similar to this, outside influences like a rapid change in market demand may highlight managerial and operational flaws in industrial units. Industrial illness has effects outside of the industry it affects. The results include social unrest, job losses, economic deterioration, and lower tax revenues. The wider community and the government are also affected, in addition to the employees and their families.

A multifaceted strategy involving several stakeholders, including the government, financial institutions, industry groups, and the afflicted industrial units themselves is needed to prevent and manage industrial disease. Restructuring, financial assistance, technical advancement, and regulatory changes may all be implemented in a timely manner to help ill sectors recover and avoid going out of business entirely [1]–[3]. Industrial illness is a complicated problem with wide-ranging effects on the economy, the job market, and society. To create plans to stop it from happening and lessen its effects, politicians, business executives, and other stakeholders must have a thorough understanding of the idea and the causes of industrial disease. It is feasible to build a more resilient industrial environment that encourages sustainable development, the creation of jobs, and general economic well-being by addressing the core causes and supporting ailing sectors. A nation's rate of industrial expansion directly affects its degree of economic development. Increased industrial utilisation results in increased production of products and services, the creation of jobs, and an improvement in the level of life in general. Ever since gaining its independence, India has worked to expand its industrial base. It has developed a number of policies intended to enhance the public and private sectors' industries. These industries have, however, sometimes seen their fair share of issues.

A factory is comparable to the human body. Anyone who has a problem with any area of their body gets ill. It could be brought on by internal or external circumstances, or perhaps by both. It is not required for all body parts to be

afflicted for someone to be unwell or for all body parts to be harmed before therapy may start. Similar to a person, a business might suffer from a mild illness if just one or a small portion of its operations are impacted. When it loses its ability to operate and engage in revenue-generating activities, it will become completely sick. It becomes ill when its departments including production, finance, marketing, and staff are impacted. Additionally, it could initially be an incipient illness brought on by internal or external sources. The unit experiences losses and eventually risks being eliminated if the illness is not treated. The disease might be industry- or unit-specific. Understanding the anatomy of an industrial unit, with a thorough investigation of its many systems or structures and their important components, is crucial to understanding industrial disease.

II. DISCUSSION

When a company or industry is unable to run as effectively as it might, it is said to be suffering from industrial disease. This condition ultimately causes financial difficulties, operational inefficiencies, and the decline or death of the company or industry. Since it has an effect on employment, productivity, and overall industrial growth, this concept has significant economic implications. Policymakers, investors, and business owners must have a solid awareness of the concept and causes of industrial disease in order to spot early warning signs, put corrective measures in place, and prevent the development of industrial distress.

The emergence of industrial sickness may be attributed to a combination of internal and environmental factors. Weak management, inadequate budgeting, loose corporate governance, a lack of competitiveness, and obsolete technology are a few examples of internal problems. These factors might lead to a decline in productivity, an increase in costs, and a loss of market share. On the other hand, external factors include market dynamics on a worldwide scale, economic downturns, changes in governmental strategy, fluctuations in demand, and ferocious competition. These external factors could have an effect on an enterprise's profitability and long-term viability.

Industrial disease has far-reaching impacts. It causes a decline in the standard of living for employees and their families as well as diminished income and job losses. Reduced tax revenues, lower industrial output, and a negative impact on supply networks all hurt the economy. Multiple economic sectors and stakeholders may be negatively impacted by industrial disease. The prevention and treatment of occupational sickness need a comprehensive approach. It includes early detection of warning signs, proactive measures to boost productivity and competitiveness, strategies for restructuring and turnaround, and supportive government and financial institution regulations. Strategic decision-making and prompt action may protect jobs, revive failing industries, and advance overall economic stability.

In the end, "industrial sickness" refers to a corporation or industry's collapse and pain that has an impact on the whole economy. Industrial sickness is brought on by a range of internal and environmental factors, necessitating thorough understanding and an effective plan to deal with the problems. By identifying early warning signs, putting corrective measures in place, and providing a supportive atmosphere, stakeholders may work together to prevent industrial illness, enhance sustainable development, and ensure the long-term survival of industries.

Insufficient finance is one of the main obstacles inhibiting the establishment of small businesses in the majority of developing countries, according to Mr. Ram K. Vapa's research *Small Industry in the Seventies*. A situation where the bulk of a developing country's scarce resources are channelled into a small number of well-known, well-funded large-scale firms has been caused by the nation's inadequate financial infrastructure. The owner of a small firm must depend on his own resources or those of his friends and family and must turn to a moneylender for loans, which are only provided at exorbitant interest rates. Quite often, the new firm cannot pay such high interest rates, and as a consequence, this acts as yet more argument against the credit worthiness of the small scale units [4]–[6].

Furthermore, according to Mr. Ram K. Vapa, maintaining the small sector requires a significant amount of credit even in countries that are substantially more developed. Small firms need more operational capital than larger companies do, as well as long-term funding to modernise their facilities and replace outdated equipment. Small businesses lack a replacement phased schedule and have a high rate of obsolescence. As a consequence, the cost of production in that sector increases, lowering the product's competitiveness on both domestic and international markets.

The problems a small company owner in a country like India with little resources must face are succinctly outlined above. In a number of operational sectors, such as manufacturing, labour, marketing, and supply, he runs into a

number of problems. Small company owners are forced to operate in the age of automation using antiquated tools and technologies due to a lack of resources. As a result, marketing problems exist in both the domestic and foreign markets. A small business owner thus cannot afford to appoint highly paid managers to handle every aspect of his company, including marketing, production, and human resource management. All of these problems are signs of a financial problem. Unresolved financial problems have the potential to make a healthy organisation unwell. The health of the unit steadily declines until disease spreads to every dimension.

The term "industrial sickness" is often used, and finance is either directly or indirectly linked to its root cause. The Indian government, reserve bank, term lending financial institutions, commercial banks, and industrial entrepreneurs are very concerned about the rising trend of disease harming Indian firms. Worldwide scholars and researchers are concentrating their research on finding strategies to halt the industrial sickness in its early stages. When the rate of return achieved on invested capital, accounting for risk participation, is significantly and consistently lower than the rates on similar investments, economists refer to this situation as a firm being "ill." To put it another way, it happens when a business's revenues fall short of its costs and its average rate of return on investment is lower than its cost of capital.

When a business cannot meet its financial commitments when they are due, it is technically insolvent. A more catastrophic form of bankruptcy happens when a company's entire liabilities exceed the fair market worth of its assets, even if this situation could only last a short period. Actual net worth of the company is currently negative. To protect itself from immediate pressure from creditors who seek to recoup their investment in the firm, a corporation may, in exceptional cases, be legally declared bankrupt by a court order. The firm now has the choice to file for bankruptcy, reorganise, or try to combine with another successful business.

Industrial disease is a technical word, thus different people will have different interpretations of it. A sick unit is an unhealthy unit to the general public, a dividend-deferring unit to investors, a losing or discouraging unit to industrialists, a questionable debtor and a weak borrower to creditors and bankers, an industrial problem unit to the government, a victim of technological change to technocrats, an unfavourable employer to workers, and a significant drain on the technical and human resources of the country. However, the illness is most prevalent when an industrial unit is unable to consistently create an output higher than its inputs, leading to operational problems including liability, cumulative losses, etc. Its excess created domestically is not enough to satisfy its needs. The unit is pulled from poor to worse condition as a result of the losses it experiences and reports year after year, forcing it to eventually rely only on outside funding for survival, which eventually results in its progressive shrinking and demise [7]–[9].

- a. In order to properly define or identify the symptoms of the illness known as industrial sickness,
- b. The capital cash flow and the rate of return on investment,
- c. The capability to fulfil socioeconomic commitments;
- d. The ability to pay off its debts;
- e. Financial success,
- f. The capacity to compete,
- g. The capacity to gain market share, among other factors, are taken into consideration. Because these are some of the crucial elements considered while evaluating the industrial unit's health.

By the State Bank of India research team on small industrial advancements in 1975, "industrial sickness" was described as a unit's inability to continuously create enough internal surpluses and dependent on frequent injections of outside financial aid. Due to this, its financial structures get seriously out of balance. The study team came to the conclusion that an industrial unit is sick when its internal resources are exhausted and it begins to go to the outside world for financial help to live.

The industrial sickness was named by the study group the RBI established to provide guidelines for examining bank lending as... Current debts exceed current assets when profitability keeps declining and the borrower's liquidity level drops. Payments to creditors are delayed, which ultimately results in default, and this is the first sign of it. Alternatively stated, because net working capital is negative, there is a net working capital deficit. When a company's revenues are insufficient to pay its expenses and its rate of return on investment is lower than its cost of capital, this is referred to as having an industrial disease. Alternatively said, the unit becomes sick when the cost

of capital exceeds the anticipated or actual return of the business. Industrial organisations are labelled as sick if they don't function consistently. From the perspective of the lenders, that would be terrible if:

- a. Due to monetary losses, it is unable to pay interest or the principle amount.
- b. There is a financial imbalance [which means that the capital is heavily geared and the current ratio is less than one]; and
- c. Profits and sales (both in terms of quantity and value) are steadily declining.

The National Institute for Bank Management defines sick units as those whose operations result in persistent losses that lower the amount of working capital available and, as a result, have a detrimental effect on borrowing capacity that is essentially irreversible. This definition states that a unit is deemed unhealthy by the small industries development organisation (SIDO) if it uses less than 20% of the installed capacity. This shows that while adopting this definition of unwell units, the SIDO gave more consideration to capacity usage. The following signs were taken into consideration by tern lending institutions when determining whether a unit was sick:

- a. Consistently failing to repay institutional loans' principle or required semi-annual interest payments.
- b. Consistent losses over a two-year period or continuing net worth erosion, say by 50%; and/or
- c. Building up statutory and other obligations over the course of one or two years.

The Sick Industrial Companies (Special Provisions) Act of 1985 defines an industrial company—one that has been in operation for at least seven years—as sick if, at the end of any fiscal year, it has accrued losses that are equal to or greater than its entire net worth and has also experienced cash losses in that fiscal year as well as the fiscal year that immediately preceded it.

Disease Origins:

Internal causes and external reasons are the two main categories of variables that affect industrial sickness. While external causes are those that affect an industrial group as a whole and over which the industrial unit has no direct control, internal causes are those that the management of a unit may be able to influence.

The many factors that lead to industrial disease in the country have been tried to be identified. Among the several factors, the most significant ones include bad management or ineffective management, a lack of money, inadequate initial planning, a lack of marketing expertise, etc. In addition, there are other factors that are equally as important as workplace disease. These can be boiled down to the following: improper industrial location; incorrect capital cost estimation; delays and cost escalation; improper formation of inventory requirements; improper marketing of finished goods at longer credit terms; labour unrest; power struggle-related infighting; poor maintenance of plant and machinery; outdated and worn-out machinery and production technology; lack of research and development; procedural delay in sanctioning loans by commercial ban.

Lack of planning for replacement and unforeseen expenditures, a reduction in demand, rising overhead costs, an unduly optimistic view of the market, delays in rehabbing sick units, a lack of laughing back of profits, inadequate investments in modernization and refurbishment, etc. These factors, regardless of their characteristics depending on the scope of activities, are to blame for the industrial sickness that is plaguing the country for all various kinds of industries.

Everyone acknowledges that poor management has a key role in higher sickness rates, despite the fact that there are other complex elements that affect industrial disease in India. Two-thirds of sick units, according to a recent study by RBI, contracted their diseases as a consequence of some kind of management mistake, such as improper financial allocation, internal conflict, a lack of marketing strategy, subpar project management, or the incorrect choice of technology.

Magnitude of Industrial Sickness

Recent statistics on the prevalence of occupational disease are rather alarming. It was first noticed in the middle of the 1960s, a period of economic stagnation. It grew even more when industrial policy was liberalised in the years that followed. As new technologies were launched in the 1980s, competition grew. Eventually, the units that couldn't keep up with the competition failed. The expansion of sick industrial units and the horrifying increase in the amount of money trapped in them over the last several months serve as an example of the horrific proportions

that the incidence of disease has assumed. Small scale industry (SSI) units, which made up 95% of all sick units in the country in 1980, are the corporate sector segments that are most adversely impacted by industrial disease. This proportion has climbed to 99% by 1999 [10]. A review of the RBI Annual Report reveals that every working day between 1986 and 1987, over 10 industrial units reported being sick. More worrisome is the fact that the majority of them are compact units. It is estimated that just 80% of the units are economically feasible. Evidently, industrial sickness has become more well-known, and the whole economy is affected by its impacts.

The nine-fold rise in the overall number of sick industries between 1980 and 1992 and the accompanying four-fold increase in bank credit against them serve as evidence that Indian industry is becoming sicker. The fact that more than 90% of the sick units are non-viable (i.e., unable to be healed) is one indication of the severity of the emerging industrial sickness. According to a survey, by the end of March 1991, ill industries owned around 18% of the outstanding bank loans to industry. There were 2,68,815 sick SSI units at the end of March 1995, up from 2,56,452 at the end of March 1994. While this was happening, the amount of outstanding bank credit that these firms were securing decreased from Rs. 3,680.37 crores to Rs. 3,547.13 crores. It is necessary to take proactive measures to prevent and cure occupational disease. Putting in place effective operational processes, encouraging creativity and flexibility, and doing strategic planning are all necessary to achieve this. A positive regulatory environment, financial accessibility, and the availability of qualified workers are further requirements for recovering failing industries.

III. CONCLUSION

The term "industrial sickness" refers to a state in which a company or industry struggles to function profitably due to operational and financial inefficiencies. Understanding this subject is necessary to comprehend the challenges businesses face and the factors that contribute to their downfall. A few of the factors that might lead to industrial disease include poor management practises, inadequate financial planning and control, external factors like economic downturns or changes in market conditions, a lack of innovation, and a failure to recognise new trends. Excessive debt, labour issues, and regulatory challenges may all have an impact on industrial sickness. A significant industrial disease might have an impact on the economy as a whole as well as the affected businesses. Job loss, diminished output, and unstable economies are all effects of industrial disease.

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