

*Everything you need to know about the causes of industrial sickness. Industrial sickness does not result in one day. It sets in and gradually weakens the unit over a period of time.*

*Various symptoms which signify the setting in of the industrial sickness are- slowdown in production and sales cycle, frequent shortages of funds and too often resorting to outside sources of funds, difficulty in honoring and paying the bills, loans, taxes, wages, salaries etc., excessive stock accumulation, problems in replenishing raw material inventory and so on.*

The causes of industrial sickness can be studied under the following heads:- 1. External Causes 2. Internal Causes.

**Some of the external causes of industrial sickness are:-**

1. Recession in the Market
2. Decline in Market Demand for the Product
3. Excessive Competition in the Market
4. Erratic Supply of Inputs
5. Government Policy Unforeseen Circumstances
6. Shortage of Finances from the Banks
7. Frequent Industrial Strikes and Labour Unrest
8. Natural Calamities like Drought, Floods etc.
9. Increase in the Burden of Taxation such as Excise Duty, Sales-Tax, etc., without Corresponding Increase in Selling Price
10. Chronic Power Shortage
11. Transport Bottlenecks
12. Fiscal Duties
13. Market Saturation
14. Technological Obsolescence
15. Political Situation
16. War.

**Some of the internal causes of industrial sickness are:-**

1. Faulty Planning
2. Incompetent Entrepreneurs
3. Problems Relating to Management
4. Financial Problems
5. Labour Unrest
6. Easy Approval Granted to Small Scale Industry
7. Lack of Experience
8. Lack of Management Skills
9. Lack of Financial Planning
10. Diversion of Funds
11. Implementation
12. Problem of Raw Materials
13. Marketing Problem
14. Lack of Skilled Manpower
15. Choice of Inappropriate Technology
16. Problem of under Utilisation of Capacity
- 17.

Incompetence 18. Poor Marketing Skills 19. Mismanagement 20. Fraudulent Practices.

---

## **50+ Causes of Industrial Sickness**

### **Causes of Industrial Sickness:**

There are several causes for industrial sickness, some causes are external or exogenous and some are internal. While the firm is unable to do anything regarding exogenous factors, it can still control the factors which are internal to it.

#### **External Causes:**

##### **(i) Recession in the Market:**

Sometimes recession hits the whole industry as a result of which individual units are unable to sell their products. The availability of credit is also restricted during such times which jeopardizes the production activities of such units. Hence, the work of these units comes to a stand-still.

##### **(ii) Decline in Market Demand for the Product:**

A product may reach at a stage of maturity and ultimately a stage of decline. This happens when new better products invade the market, and make the old products redundant, for example, with the advent of motorized vehicles, the demand bullock cart etc. has declined.

##### **(iii) Excessive Competition in the Market:**

Excessive competition in the market will justify the survival of only the fittest firms. The high-cost unit's overtime will become weak and fall sick.

##### **(iv) Erratic Supply of Inputs:**

Erratic and insufficient supply of inputs like raw materials, power, skilled man power, finance, credit and transport at reasonable prices could cause disturbance in the production schedule and ultimately results in sickness for the firm. This often happens in the case of units depending upon the supply of imported inputs.

##### **(v) Government Policy:**

Excessive government control and restrictions of capacity utilization, location, product mix, product quality, prices, distribution etc., come in the way of smooth functioning of the firms and often result in sickness to the firm.

**(vi) Unforeseen Circumstances:**

Natural calamities such as drought, floods, earthquakes, accidents and war etc., may turn some units sick and unviable.

**Internal Causes:**

**(i) Faulty Planning:**

At the planning stage itself, weak foundations may be laid which may ultimately result in down fall of the unit. For example, the location site chosen for the firm may be inappropriate lacking infrastructural facilities or the technology adopted by the unit may be unsuitable. If the production takes place with such technology, the goods produced will be costlier or of poorer quality than those produced by the firms using modern and appropriate technology.

**(ii) Incompetent Entrepreneurs:**

Many persons starting new business lack technical knowledge of the product they want to manufacture. It is the normal case with small scale entrepreneurs. They sometime plunge into production activity, without bothering to find out the marketing potential of their product. Or sometime they start producing without properly calculating the ultimate cost. Poor maintenance of plant and machinery, constant technical problems with maintenance production volume, quality, time schedule and cost limits may ultimately spell doom for the firm.

**(iii) Problems Relating to Management:**

Sine production, marketing, finance etc., are in the hands of the managers, any wrong decision by them with regard to these fields may ultimately ruin a firm. For example, maintaining of excessive or inadequate inventory, lack of quality consciousness, inadequate attention toward maintenance etc., can cause frequent disruptions or problems in the production activity of the firm. In some case, his production may be smooth, but pricing of the product may be

improper. Even if pricing is proper sale promotion strategy of the firm may be inadequate.

The management may lack business acumen to make demand projections, to push the product in the market, to build up market image and customer loyalty, to face competition and so on.

Improper level and use of working capital can also ruin the firm.

Similarly, poor industrial relations, lack of human resources planning, faulty wage and promotional policies can cause problems for the existence of the firm. So incompetent management is the most important reason behind industrial sickness.

#### **(iv) Financial Problems:**

These problems are generally faced by small units. Often the financial base of the small units is very weak. They generally borrow from their own known sources or banks rather than approaching market.

Generally, they are unable to meet their debt obligations in time and these debts accumulate.

Banks normally do not help at this stage when symptoms begin to show. The problems deepens and sickness become chronic. Otherwise also, incompetent financial planning and control, excessive expenditure, faulty dividend policy, etc. are the factors causing sickness.

#### **(v) Labour Unrest:**

Labour unrest for a long period may ultimately spell doom for the firm. Labour may be unsatisfied with the management over the issues of wages, bonus, suspensions, promotions, etc., and may resort to strikes or such tactics. If not solved in time, such problems can cause sickness.

The above causes are general causes of sickness. A firm could get sick because of one or more of the above causes. However, it has been found that industrial sickness results more due to faulty, careless behaviour and attitudes of management, than due to any other reason. In many cases irresponsible and callous behaviour of the managers has been found to be the most important cause of sickness for the firm, managers has been found to be the most important cause of sickness for the firm.

---

## **Causes of Industrial Sickness – External and Internal Causes**

**Various causes of industrial sickness may be classified into two broad categories:**

### **1. External Causes:**

These causes are beyond the control of an industrial unit.

#### **These are as follows:**

- (i) Changes in the industrial policies of the Government from time to time.
- (ii) Inadequate availability of essential inputs such as raw materials, power, transport and skilled labour.
- (iii) Lack of adequate demand for the product and trade cycles.
- (iv) Industrial unrest.
- (v) Shortage of finance especially working capital.
- (vi) Natural calamities like drought, floods, etc.
- (vii) Recessionary trends in the domestic or global economy.

### **Why Small Businesses Fail:**

- i. Age – Younger people who start a business have a greater chance of failure than older people do.
- ii. Capital – Businesses that start with too little investment by owners have a greater chance of failure than businesses with adequate investment by owners.
- iii. Economic Timing – Businesses that start during a recession have a greater chance of failure than businesses that start during prosperity.
- iv. Education – People with no college education who start a business have a greater chance of failure than people with one or more years of college education.
- v. Experience – Businesses run by people without prior industry experience have a greater chance of failure than businesses run by people with prior industry experience. Similarly, businesses run by people without prior managerial experience have a greater chance of failure than businesses run by people with prior managerial experience.
- vi. Marketing – Business owners without marketing skills have a greater chance of failure than others with marketing skills.

vii. Parents – Business owners whose parents did not own a business have a greater chance of failure than owners whose parents did own a business.

viii. Partners – A business started by one person has a greater chance of failure than a business started by more than one person.

ix. Planning – Businesses that do not prepare business plans have a greater chance of failure than businesses that do.

## **2. Internal Causes:**

These are within the control of industrial unit. These refer to mismanagement in various functional areas like finance, production marketing and personnel. Available data (Table 19.3) reveals that mismanagement is the single most important cause of industrial sickness. Inexperience, arrogance, lack of planning are all internal causes.

i. Faulty Planning – Mistakes in the planning stage are a major cause of industrial sickness. Choice of faulty location is one such mistake. In case the unit is located at a place where basic infrastructure facilities are not available serious problems can arise. In the absence of proper market analysis, the unit may produce more than the market potential. Wrong estimate of the project cost, time and cost overruns in launching the project and wasteful expenditure in the initial stages can also lead to industrial sickness.

ii. Choice of Inappropriate Technology – A small scale unit is likely to suffer a cost and quality disadvantage if the technology adopted by it is inappropriate or becomes obsolete. Many small scale units do not seek expert guidance in selecting the right type of plant and machinery.

iii. Incompetence – Many small entrepreneurs lack basic technical knowledge of the product. Their business acumen is inadequate and they do not know account keeping, product costing, etc.

iv. Financial Problems – Poor financial planning, lack of adequate capital, poor management of working capital, ineffective financial control and other financial problems may cause sickness in a small scale unit.

v. Labour Problems – Continuous labour unrest may cause great loss to the firm. When workers frequently go on strike and other forms of agitations, production and sales suffer badly.

vi. Poor Marketing Skills – A small scale unit is likely to become sick when its owner is incapable of making demand forecasts, building market image, creating customer loyalty and facing competition in the market.

vii. Mismanagement – Faulty management decisions and actions are a common cause of sickness in the small scale sector. Poor maintenance of plant and machinery, lack of quality control system, absence of inventory management, lack of cost control, and non-replacement of obsolete machinery are some examples of mismanagement.

viii. Fraudulent Practices – Some small scale entrepreneurs siphon off business funds for personal use. They borrow money from banks and financial institutions and make their units sick to avoid repayment.

Poor implementation of project has been the second main factor contributing to sickness in industry. Improper planning and managerial inefficiency are the main reasons for poor project implementation. Poor implementation causes delay in the progress of the project leading to time and cost overrun. For instance, construction of the factory building is not complete within the scheduled time and the required plant and machinery are not installed within time.

These delays/ failures lead to delay in release of loan installments from banks and financial institutions. In some cases there have been 75 % cost overruns and 8 years' time overruns. For example, Saraswati Woollen Mills (Pvt.) Ltd at Ranikhet (U.P.) became sick even before it started production.

Uneconomic location, choice of inappropriate technology, mistakes in recruitment and training, under-estimation of inputs, etc., lead to industrial sickness. In the small-scale sector external factors have been more responsible for sickness. Management of small-scale units is quite difficult due to lack of adequate knowledge, skills and experience on the part of the proprietor. Small-scale units are more prone to sickness than large-scale firms.

---

## **Causes of Industrial Sickness – In Small Scale Industries**

The sickness in small scale industry is the ultimate result of many causes that effects simultaneously.

**The causes of sickness are classified into two categories:**

1. Internal Causes.
2. External Causes.

### **1. Internal Causes:**

Internal cause arise within the organisation. These causes are within the control of the industrial unit and mainly relate to mismanagement in various operational areas.

#### **i. Easy Approval Granted to Small Scale Industry:**

The easy approval granted by the state Government without proper screening of the project proposal and no adequate care is assessed with regard to financial viability. Thus resulting towards industrial sickness.

#### **ii. Lack of Experience:**

The self-employment schemes of financial institutions and promotional agencies of the Government have encouraged a lot of unexperienced people to set up their own small scale industries. These new entrants have to take various important decisions but due. to lack of experience, the lead towards wrong selection of the project, faulty project planning and poor implementation which lead towards industrial sickness.

#### **iii. Lack of Management Skills:**

Since it has become very important for small enterprise to employ modern methods of management in fields of advanced technology, marketing etc., the new entrants do not have prior training or background in management of their enterprises which lead towards bad performance and sickness in the unit.

#### **iv. Depend on Own Fund:**

Most of the small units do not borrow the funds rather they depend on their own funds. Only for working capital they depend on commercial banks.

#### **v. Problem of Finance:**



Financial problem is one of the most common and important problem faced by small scale industries. The problem of finance is mainly due to two reasons. Firstly, it is partly due to scarcity of capital in the country as a whole secondly, it is due to weak creditworthiness of small units in the country. Due to their weak economic base, they face difficulties in getting financial assistance from financial institutions and commercial banks.

**vi. Lack of Financial Planning:**

The short term financial requirements are met either by investing their own funds or by raising working capital loans and long term requirements are met by raising long term loans. Each mode of raising finance have different rate of interest that is to be repaid, so on entrepreneur has to select on optimum mix, that would not disturb the economic viability. Many first generation entrepreneurs lack this knowledge of appropriate finance mix and weak equity base that results into industrial sickness.

**vii. Diversion of Funds:**

A Company that is financially disciplined uses its long term funds to meet its long term needs and uses short term funds for working capital needs. Some of the units uses the funds from long term to short term and vice versa, which leads towards sickness.

**viii. Implementation:**

Due to delays in getting licenses and sanctions etc., the cost over runs and results into inadequate mobilisation of finances.

**ix. Technology:**

Small scale units have to upgrade and update their technology. As there is a misconception in the minds of entrepreneurs that modernisation and upgradation of technology involves costly equipment and labour reduction but they fail to see the other side of the coin that initial investment cost may be high but this investment would ultimately result in long term benefits with higher and consistent quality, higher productivity achievements etc. Thus lack in adaptation of modern equipments will lead towards industrial sickness.

**x. Problem of Raw Materials:**

Majority of the small scale units produced items depending on local raw materials but since the emergence of modern small scale industries manufacturing a lot of sophisticated items, a serious problem of raw materials has emerged on their production efforts.

**The problem of raw materials has led towards:**

- a. An absolute scarcity
- b. High cost
- c. A poor quality of raw materials.

Few of the small scale units who use imported raw materials face a problem of raw material with more severity due to difficulty, in obtaining raw materials, may it be either due to foreign exchange crises or some other reasons.

**xi. Marketing Problem:**

Small scale units face a major problem in the field of marketing. Few of the problems faced while marketing their products are, lack of quality, lack of standardization, scale of production, poor designing, poor finishing, Brand preferences, ignorance of potential markets, unfamiliarity with the export activities etc.

Market research is required to discover the customer's needs, desires and habits, level of acceptance of the existing and proposed products or services. But due to lack of funds these small units are unable to conduct market research and forecast the changing demands of the customers.

These small units do not possess any marketing organisations, which results into low quality of products compared to large scale industries, thus suffer from a competitive disadvantage. As there is an absence of marketing channel many small units sell their products to large industries who make a great profits whereas these small units just get the raw deal.

Ancillary units face their own type of problems like non-adherence to quality and delivery schedules, delay in payment by parent units, adequacy of technological support extended by parent units, thus, disturbing the programmes of the parent unit and absence of well-defined pricing system and regulatory laws.

**xii. Lack of Skilled Man Power:**

As these small scale units are located in backward/ rural areas they have an abundant supply of unskilled labours and find difficult to get skilled man power. Though the Government has taken lot of measures to provide on the job and off the job training to these unskilled labours, still it has not become successful in reaching all areas in the country. Thus results into low productivity, poor quality of product and services etc.

### **xiii. Problem of under Utilisation of Capacity:**

Most of the small scale units results into sick units due to the under utilisation of installed capacities.

According to Arun Ghosh, on the basis of All India Census of small scale industries, 1972 the percentage utilisation of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and 29 in plastic products. On an average 40-50 percent of the capacity was not utilised in small scale units.

The main reason for the underutilization of capacity is power problem. There are two aspects to the problem- One, power supply is not always available, it rationed out, limited to a few hours in a day. Second, unlike large industries these small scale industries cannot afford to go in for alternatives like installing own thermal units, as these involve heavy costs. As these small units have weak economic front, they have to manage within their best available merge means.

### **xiv. Other Problems:**

In addition to the problems discussed above the small scale industries have been constrained by a number of other problems. According to the seventh five year plan, the other problems stated were, inadequate and irregular supply of raw materials, technological obsolescence, inadequate availability of credit facility, lack of organised market channels, unorganised nature of operation, constraints of infrastructure facilities and lack of managerial and technical skills. Despite of various measures undertaken quality consciousness has not been, generated to the desired level. There has been lack of effective co-ordination among various support organisations set up over the period for the promotion and development of these industries.

## **2. External Causes:**

The external causes are beyond the control of the industry and usually affect the industry as a whole. There are several external factors causing industrial sickness and these causes vary from time to time, from industry to industry and even from one point of time to another for the same industry.

**Some of the important external factors causing industrial sickness are as follows:**

- i. Change in the Governmental policies from time to time.
- ii. Inadequate and untimely availability of necessary inputs like raw materials, power, skilled labour, transport etc.
- iii. Shortage of finances from the banks.
- iv. Recessionary trends.
- v. Lack of demand for the product.
- vi. Frequent industrial strikes and labour unrest.
- vii. Natural calamities like drought, floods etc.

The above external factors can be broadly classified into three categories based on their nature-

- (1) Governmental policy.
  - (2) Environment.
  - (3) Natural calamities.
- 

## **Causes of Industrial Sickness**

**Causes of industrial sickness may broadly be divided into two parts:**

1. External causes and
2. Internal causes.

**1. External Causes:**

External causes are the causes which relate to external factors. Such factors cannot be controlled by management.

**Important external causes of industrial sickness are as under:**

1. Decline in demand for the goods and services produced by industrial unit.

2. Excessive increase in competition to the extent that share of demand of the goods and services produced by industrial unit in total market demand declines substantially.
3. Non-availability of inputs such as raw materials, labour, power, etc., to the extent that the unit is unable in carrying out its production activities.
4. Increase in cost of inputs without corresponding increase in selling price.
5. Increase in the burden of taxation such as excise duty, sales-tax, etc., without corresponding increase in selling price.
6. Excessive government controls and restrictions on the quantity and quality of production, price fixation, distribution, etc.
7. Natural calamities such as flood, drought, fire, accidents, etc.

## **2. Internal Causes:**

Internal causes are the causes that relate to internal factors of an enterprise. These factors can be controlled to a large extent.

**Important internal causes of industrial sickness are as under:**

### **1. Managerial Causes:**

- (i) Lack of managerial efficiency and expertise,
- (ii) Lack of the ability of sound forecasting,
- (iii) Lack of the ability to take right decisions at right time,
- (iv) Lack of integrity and honesty among managerial personnel, etc.

### **2. Technical Causes:**

- (i) Wrong choice of plant location,
- (ii) Wrong choice of production technology,
- (iii) Inability in maintaining the quantity and quality of production,
- (iv) Inability in following time schedule and cost limits of production,
- (v) Poor maintenance of plant and machinery, etc.

### **3. Financial Causes:**

- (i) Selection of inappropriate financial structure,
- (ii) Lack of sound financial planning,
- (iii) Lack of sound financial control,
- (iv) Poor management of working capital,
- (v) Failure to control overheads,
- (vi) Failure to control the waste of materials and manpower,

- (vii) Improper control on assets,
- (viii) Deficient dividend policy,
- (ix) High cost of borrowed funds.

#### **4. Marketing Causes:**

- (i) Failure to make proper demand forecasting,
- (ii) Failure in creating market image and customer loyalty,
- (iii) Failure in facing the competition successfully,
- (iv) Failure in anticipating market recessions.

#### **5. Other Causes:**

- (i) Selection of inefficient manpower,
  - (ii) Failure in controlling industrial unrest, in discipline, strike and lock-out, etc.
  - (iii) Wrong choice of plant location,
  - (iv) Inefficient supervision and control, etc.
- 

## **Causes for Industrial Sickness – Internal and External Causes**

### **A. Internal Causes for Industrial Sickness:**

**The following internal causes may lead to sickness of an industrial unit:**

#### **I. Planning and Implementation Stage:**

##### **i. Technical Feasibility:**

1. Inadequate technical know-how
2. Locational disadvantage
3. Outdated production process.

##### **ii. Economic Viability:**

1. High cost of inputs
2. Break-even point too high
3. Uneconomic size of project
4. Underestimation of financial requirements

5. Unduly large investment in fixed assets
6. Overestimation of demand
7. Cost over runs resulting from delays in getting licenses/sanctions etc.
8. Inadequate mobilization of finance.

## **II. Commercial Production Stage:**

### **i. Production Management:**

1. Inappropriate product-mix
2. Poor quality control
3. Poor capacity utilization
4. High cost of production
5. Poor inventory management
6. Inadequate maintenance and replacement
7. Lack of timely and adequate modernization
8. High wastage.

### **ii. Financial Management:**

1. Poor resources management & financial planning
2. Faulty costing
3. Liberal dividend policy
4. General financial indiscipline
5. Application of funds for unauthorized purposes
6. Deficiency of funds

7. Overtrading
8. Unfavourable gearing
9. Inadequate working capital
10. Absence of cost consciousness
11. Lack of effective collection machinery.

**iii. Labour Management:**

1. Excessively high wage structure
2. Inefficient handling of labour problems
3. Excessive manpower
4. Poor labour productivity
5. Poor labour relations
6. Lack of skilled/technical competent personnel.

**iv. Marketing Management:**

1. Dependence on limited number of customers
2. Dependence on limited number of products
3. Poor sales realization
4. Defective pricing policy
5. Booking large order at fixed price during inflation
6. Weak market organization
7. Lack of market feedback and market research
8. Lack of knowledge of marketing techniques



9. Unscrupulous sales/purchase practices.

**v. Administrative Management:**

1. Over centralization
2. Lack of professionalism
3. Lack of feed-back to management
4. Lack of proper management information systems
5. Lack of controls
6. Lack of timely diversification
7. Excessive expenditure of R&D
8. Divided loyalties
9. Incompetent management
10. Dishonest management.

**B. External Causes for Industrial Sickness:**

**The external factors that cause industrial sickness are as given below:**

**I. Infrastructure Bottlenecks:**

1. Non-availability of irregular supply of critical raw materials or other inputs
2. Chronic power shortage
3. Transport bottlenecks

**II. Financial Bottlenecks:**

Non-availability of adequate finance at the right time

**III. Government Controls:**

1. Government price controls

2. Fiscal duties

3. Abrupt changes in Government policies affecting costs/prices/imports/exports/licensing

4. Procedural delays on the part of the financial/licensing/other controlling or regulating authorities

**IV. Market Constraints:**

1. Market saturation

2. Technological obsolescence

3. Recession

4. Fall in domestic/export demand

**V. Extraneous factors:**

1. Natural calamities

2. Political situation (domestic as well as international)

3. Sympathetic strikes

4. Multiplicity of labour unions

5. War

---