Introduction

The term industrial sickness goes beyond bankruptcy. It is described as the extreme state where accumulated losses exceed the net worth.[1] High incidence of industrial sickness has the affect of blocking of scarce financial resources, loss of production and employment. Protection of employment, scarcity of foreign exchange, need to restrict imports and encouragement import substituting industrialisation have been mainly responsible for India not taking steps to close down unviable units. Indeed, a number of chronically loss making private sector units were absorbed in the public sector through nationalisation and management takeovers.[2]

2 Growth and Magnitude of Sickness

Though the problem of industrial sickness has been a long standing one, data on the number of sick units and the outstanding bank credit against them is being collected only from late 'seventies. In view of this our discussion on the magnitude of sickness will confine itself to the period since the beginning of 'eighties. The number of sick units had increased to about ten times between June 1980 to March 1991. As on June 1980, total number of sick units were 22,714 with an outstanding bank credit of Rs. 1,525.50 crores (See Table - 1). By March 1991, the total number of units rose to 2,22,933 with an outstanding bank credit of Rs. 7,897.61 crores. The non-small scale sector with 1.71 per cent of the total sick units accounted for an outstanding bank credit of 80.80 per cent in 1980. The share of small scale sector in the number of sick units has increased from 98.29 per cent in 1980 to 99.34 per cent by March 1991 and the corresponding share in outstanding bank credit has increased from 19.19 per cent to 35.35 per cent. The number of non-small scale industrial units had increased from 389 in 1980 to 1461 in 1991.

On the face of it, it looks as if that sickness in the small scale sector has increased at a much faster pace than the non-small scale sector both in terms of numbers and the outstanding bank credit. However, the outstanding bank credit per non-SSI sick unit had increased from Rs. 316.63 lakhs to Rs. 349.46 lakhs during 1980-91 and for the small scale sector it had declined slightly from Rs. 1.31 lakhs to 1.26 lakhs per unit during the same period. It may also be noted that much of the efforts at tackling industrial sickness were aimed at the non-SSI sector.

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1. See: T.C.A. Anant, et. al., "Industrial Sickness in India: Corporate Restructuring -- Its Agency Problems and Institutional Responses", Studies in Industrial Development, Paper No. 17, Ministry of Industry, Government of India, New Delhi, May 1995.

2. See: Kamal Nayan Kabra, Nationalisation in India: Political Economy of Policy Options, Eastern Books, New Delhi, 1992.

Table - 1

Trends in Industrial Sickness during 1980-1991

(Amount in Rs. crores)

Year	Number of Units			Outstanding Bank Credit		
	SSI	Non-SSI	Total	SSI	Non-SSI	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1980	22325	389	22714	292.80	1232.70	1525.50
	(98.29)	(1.71)	(100)	(19.19)	(80.80)	(100)
1981	22360	422	22782	321.82	1453.29	1775.11
	(98.15)	(1.85)	(100)	(18.13)	(81.87)	(100)
1982	26973	439	27412	393.67	1728.40	2122.07
	(98.40)	(1.60)	(100)	(18.55)	(81.45)	(100)
1983	64388	463	64851	626.52	1913.1	2539.62
	(99.29)	(0.71)	(100)	(24.67)	(75.33)	(100)
1984	81647	513	82160	788.30	2112.44	2900.74
	(99.38)	(0.62)	(100)	(27.18)	(72.82)	(100)
1985	97890	597	98487	954.65	2655.39	3610.04
	(99.39)	(0.61)	(100)	(26.44)	(73.56)	(100)
1986	128687	689	129376	1184.22	3238.64	4422.86
	(99.47)	(0.53)	(100)	(26.77)	(73.23)	(100)
1987	158226	1057	159283	1542.25	2680.44	4222.69
	(99.34)	(0.66)	(100)	(36.52)	(63.48)	(100)
1988	217436	1172	218608	1979.85	3025.88	5005.73
	(99.46)	(0.54)	(100)	(39.55)	(60.45)	(100)
1989	186441	1419	187860	2243.31	4257.83	6501.14
	(99.24)	(0.76)	(100)	(34.51)	(65.49)	(100)
1990	225324	1467	226791	2610.87	4734.27	7345.14
	(99.35)	(0.65)	(100)	(35.55)	(64.45)	(100)
1991	221472	1461	222933	2792.04	5105.57	7897.61
	(99.34)	(0.66)	(100)	(35.35)	(64.65)	(100)

Source: Reserve Bank of India, Report on Currency and Finance, various issues.

Note:
(1) Figures for the years 1980 to 1988 refer to the position at the end of June of the corresponding years.
(2) Figures for the years 1989 and 1990 refer to the position at the end of September of the corresponding year.
(3) Figures for the year 1991 refer to the position at the end of March 1991.
(4) SSI stands for Small Scale Industries.

3 Evolution of the Policy towards Sick Companies and Role of BIFR in their Revival

The sizable magnitude and incidence of sickness has been a serious concern for the Government, the banks and the financial institutions in view of the responsibility taken up by the Government in industrialising the country in various forms particularly through the deployment of huge financial resources in industrial ventures -- both public and private. In the past various efforts were made by the Government in consultation with the Reserve Bank of India (RBI) to tackle the problem of sick units. The first such step was taken in 1971 to set up Industrial Reconstruction Corporation of India Ltd (IRCI) to provide reconstruction and rehabilitation assistance to sick and closed units. The financial institutions have also been engaged in providing assistance to sick units by setting up separate cells with technical and financial experts to deal with the problem of sickness.

A high level Committee appointed by the Government in 1976 opined that the existing legislation may be suitably amended to merge sick units with healthy ones.[3] In 1978 the RBI drew the attention of the banks in dealing with sick industrial units in the small scale sector. The "Statement on Policy of Sick Industries" announced by the Government in 1978 aimed at devising suitable means for dealing effectively with sick industrial units and also setting up a mechanism for monitoring and detecting sickness at an early stage.[4] In 1980 state level inter-institutional committees were set up to tackle the problem of sickness. In order to have a coordinated approach at all-India level, the Government decided to refer the sick units receiving rehabilitation assistance from banks to the IRCI and the units receiving assistance from term lending institutions to the Industrial Development Bank of India. In 1981, the RBI appointed a Committee to examine the legal and other problems faced by the banks and financial institutions in rehabilitation of sick industrial units and to suggest remedial measures for effectively tackling the problem of sickness. The Committee headed by T. Tiwari opined that "(T)he remedies as available in terms of various existing statutes for reviving and rehabilitation of sick industrial units are inadequate and dilatory".[5] The Committee, therefore, stressed the need for comprehensive legislation designed to deal with the problems of sick industrial units. The Committee further recommended the setting up of a quasi-judicial body called Board for Industrial Revival under special legislation to deal expeditiously and exclusively with the matters

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3. The high level committee while making recommendations governing merger of sick units with healthy ones recommended that in order to avoid a heavy drain on the exchequer it was necessary to explore ways in which potentially viable sick industrial units can be revived through voluntary merger with sound units for which a specific scheme should be drawn up to supplement the existing provisions regarding merger and reconstruction under the Companies Act, 1956. See: RBI, Report of the Committee to Examine the Legal and other difficulties faced by the Banks and Financial Institutions in Rehabilitation of Sick Industrial Undertakings and Suggest Remedial Measures including changes in the Law, Bombay, 1984, (Chairman: T. Tiwari), p. 2.

4. "Statement on Policy of Sick Industries, 1978", reproduced in Government of India, Ministry of Industries, Guidelines for Industries, Part-I, Policy and Procedures, 1982, Sec. II-17.

5. See: Tiwari Committee Report, op. cit., p. 113.

relating to revival of sick industrial units.[6]

Following the recommendations of the Tiwari Committee, the Government of India enacted the Sick Industrial Companies (Special Provisions) Act (SICA), in 1985.[7] SICA was considered to be a major step for detecting sickness at early stages and to suggest remedial measures for revival of potentially viable sick units. For purposes of the Act a company is considered to be sick if it meets the following criteria:

1. It has been registered for not less than 7 years;
2. At the end of any financial year its accumulated losses equal to or exceed its entire net worth; and
3. It has suffered a cash loss in such financial year and the immediately preceding financial year.

This definition did not initially cover government companies, shipping companies and small scale industrial units and ancillary units. Government companies are since brought under the purview of the Act consequent to the policy changes during the post-July 1991 period. The Act was to be applied to companies registered under the Companies Act, 1956 owning medium and large undertakings pertaining to Schedule-I industries under the IDRA (with exception to shipping) which have either become sick or potentially sick. The provisions of the Act were sought to be implemented through a three-tier system consisting of: (1) BIFR; (2) Appellate Authority for Industrial and Financial Reconstruction (AAIFR); and (3) an Operating Agency.

In accordance with the provisions of SICA, BIFR was set up in 1987. Since then all industrial companies whose peak net worth in the immediately preceding five financial years has been eroded by 50 per cent are required to report themselves to BIFR. The AAIFR was also set up for hearing appeals against the orders of BIFR. Any of the public financial institutions and banks as specified in the Act can be appointed as operating agency by BIFR to make enquiry and formulate a scheme for revival/rehabilitation of sick companies.

The BIFR receives references under sections 15(1) and 15(2) regarding sick industrial concerns. Decisions of the Board follow the provisions of Sections 17(1), 17(2), 18(4) and 20(1) of the Act which respectively relate to maintainability, fixing a time limit for making the net worth positive, sanctioning of rehabilitation schemes, and winding up.[8]

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6. Ibid., p. 114.

7. Government of India, Ministry of Law and Justice, The Sick Industrial Companies (Special Provisions) Act, 1985, 1986.

8. (a) Section 17 of SICA specifies that if after making an enquiry under section 16, the Board is satisfied that the company became sick it should examine whether it is practicable for the company to make its net worth positive within a reasonable time. What time is 'reasonable' will again depend on the facts and circumstances of the case. If the Board decides that it is so practicable, an order is passed under section 17(2) of the Act specifying the time for making the net worth positive, subject to such conditions or restrictions as may be mentioned in the order.
(b) If the Board feels that it is not practicable for a company to make its net worth positive within

4 Reference of Sick Companies to BIFR

Of the 1175 cases referred to the BIFR till the end of December 1992, 215 were found to be not maintainable.[9] A further 167 sick companies were allowed time to make their net worth positive (See Table - 2). Rehabilitation schemes were sanctioned in 257 cases and in 170 cases the Board recorded its decision to wind up the companies and forwarded its decision to the concerned High Courts. The balance 366 references were under various stages of processing by the BIFR as on December 31, 1992.[10]

Table - 2 also gives the industry-wise distribution of references received by the BIFR up to December 31, 1992.[11] It can be seen that the highest number of references were received from metallurgical industries (224) followed by textiles (194), chemicals (148), food products (110), mechanical engineering (100) and paper (97). These six industries had a combined share of nearly three-fourths of the total cases disposed off by the BIFR.

(..continued)

a reasonable time and that it is expedient in the public interest to take measures for the rehabilitation of the company, it takes action under section 17(3). Employment of large number of persons, involvement of heavy amount of public funds, the industry being a strategic one from defence point of view and being lone industrial unit of significance in backward area are the main criteria for deciding public interest. If the Board is satisfied that the revival of the company is in the public interest, an operating agency is appointed under section 17(3) of the Act, a rehabilitation scheme is prepared, and after one or more hearings where it is discussed with all concerned, a scheme is sanctioned under section 18(4) of the Act.

(c) After consideration of all the relevant facts and circumstances if the Board is of the opinion that if the company should be wound up, it may record its opinion and forward it to the concerned High Court. It may also, under sub-section (2) or (3), the Board may also cause to be sold the assets of the sick industrial company in such manner as it may deem fit and forward the sale proceeds to the High Court for orders for distribution in accordance with the provisions of Section 529-A and other provisions of the Companies Act, 1956. For further details see: BIFR, Guidelines: 1992, New Delhi, p. 31.

9. There is, however, a possibility of overlapping in the reported number of references as references could be made under both sections 15(1) and 15(2) of the Act for the same industrial concern.

10. For details on the references see: M.S. Narayanan, "Industrial Sickness: Review of BIFR's Role", Economic and Political Weekly, Vol. XXIX, No. 7, February 12, 1994, pp. 362-376.

11. There was no uniform time period for references received and cases disposed off by the BIFR. In the case of chemicals and food processing industries references received up to December 31, 1992 were covered in the volumes of case studies. In respect of textiles, jute, electricals and electronics, paper, leather, rubber, cement and cement products, transportation and misc. industries were covered up to December 31, 1991 and in case of metallurgical up to December 1990.

Table - 2

Industry-wise Distribution of Sick Companies Referred and Decisions taken by the BIFR up to December 31, 1992

(No. of Cases)

S. No.	Industry	Referred to BIFR	Disposed off by BIFR under Sections			Reference not Maint-enable	References Under Consi-deration
			18(4)	17(2)	20(1)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Metallurgical Industries	224	46	36	32	34	76
2.	Textiles	194	47	22	37	29	59
3.	Chemicals	148	33	18	19	30	48
4.	Food Products	110	21	16	12	31	30
5.	Mechanical Engineering	100	25	14	17	21	23
6.	Paper	97	30	18	18	17	14
7.	Electricals	69	16	13	6	15	19
8.	Cement	45	7	3	5	4	26
9.	Transport	34	5	6	5	6	12
10.	Jute	30	10	2	5	4	9
11.	Leather & leather products	16	5	5	3	2	1
12.	Rubber	14	1	2	3	3	5
13.	Miscellaneous Industries	94	11	12	8	19	44
	Total	1175	257	167	170	215	366

Note: 18(4) : Rehabilitation schemes sanctioned.
17(2) : Time limit fixed for making the net worth positive.
20(1) : Orders were passed to wind up the company.

Source: Based on BIFR, Industrial Sickness: Cases Studies, Various Volumes, Ministry of Finance, Government of India.

From the state-wise distribution of the references received by the BIFR given in Table - 3 we find that the top six states accounted for more than two-thirds of the total number of sick companies. The highest number of references were received from Maharashtra (210) followed by Andhra Pradesh (140), West Bengal (132), Gujarat (112), Tamilnadu (104) and Uttar Pradesh (90). These states had roughly the same share in cases where revival schemes were sanctioned by the BIFR and those which were recommended to be wound up. It may be noted that these six states occupied the top positions in terms of number of units as also the outstanding bank credit locked up in non-SSI sick units at the end of March 1991.[12] One also finds considerable similarity in the industry pattern of

12. See: Reserve Bank of India, Report on Currency and Finance: 1991-92, Volume I, p. 69.

sickness at the national level and that reflected in the BIFR references. Thus, a study of BIFR references could be representative of the phenomenon of sickness outside the small scale sector in the country.

Table - 3

State-wise Distribution of Sick Companies Referred to and Cases Disposed off by the BIFR up to December 31, 1992

(No. of cases)

S. No.	Industry	Referred to BIFR	Disposed off by BIFR under Sections			Reference not Maint-enable	References Under Consi-deration
			18(4)	17(2)	20(1)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Maharashtra	210	50	25	22	46	67
2.	Andhra Pradesh	140	31	29	15	16	49
3.	West Bengal	132	25	17	31	21	38
4.	Gujarat	112	24	20	23	21	24
5.	Tamilnadu	104	26	20	13	20	25
6.	Uttar Pradesh	90	16	2	14	19	39
7.	Karnataka	81	19	12	11	16	23
8.	Rajasthan	53	16	3	12	6	16
9.	Madhya Pradesh	43	3	4	9	6	21
10.	Haryana	40	12	5	2	11	10
11.	Bihar	39	9	6	8	8	8
12.	Kerala	35	8	9	2	6	10
13.	Punjab	28	6	6	2	3	11
14.	Orissa	24	5	4	1	4	10
15.	Himachal Pradesh	22	2	4	4	5	7
16.	Pondicherry	8	1	1	0	2	4
17.	Delhi	4	1	0	1	1	1
18.	Assam	3	0	0	0	1	2
19.	Jammu & Kashmir	2	0	0	0	1	1
20.	Chandigarh	2	2	0	0	0	0
21.	Goa, Daman, Diu	3	1	0	0	2	0
	Total	1175	257	167	170	215	366

Note: See Table VII.2
Source: Same as in Table VII.2

It was observed that about 28 per cent of the publicly floated JSEs have experienced serious financial difficulties following which they were either referred to the Board for Industrial and Financial Reconstruction (BIFR) for initiating rehabilitation process or went into liquidation.[13] In the following we make an attempt to identify the

13. M.R. Murthy, "A Study of Comparative Performance of Joint and Private Sector

causes for sickness in the joint sector in the overall context of industrial sickness in the country.

5 Analysis of Causes of Sickness

It would be difficult to distinguish between bad corporate performance, corporate bankruptcy and industrial sickness. The latter one is an extreme case where firms chronically make losses to a point where accumulated losses exceed their net worth and yet continue to be in operation. The causes of sickness can be due to external and internal reasons.[14] Change in demand for the product, change in methods of production, competition from other units, etc. may affect the prospects of a company. It is inevitable in the industries where technological developments take place at a fast pace, older units are placed at a great disadvantage. Recession in economy may make units unviable; drastic changes in industrial and trade policies tend to make certain units uncompetitive; and slow progress in some of the sectors may shrink the market for those dependent on them. These factors contributing to sickness are termed as external causes since these are outside the control of an individual enterprise. One may also include under this category the extraneous factors like natural calamities, law and order situation, wars and multiplicity of labour unions.

Under the second type of causes one can include lack of adequate planning, wrong choice of location, inefficient method of production, underestimating the requirements for inputs such as power, raw material and trained manpower etc., cost over-runs due to delayed implementation of projects, misconception and mismanagement of production, labour, marketing and finance and an overall lack of professionalism.[15] These are termed as internal causes. Among the internal factors there could be a conscious and deliberate intention to lynch an enterprise by its management. If the management resorts to poor resource management, siphons away funds or draws heavily upon the business resources for their personal advantage through transfer pricing, the enterprises would logically turn into 'sick' ones. This type of sickness is an induced one by the management. Some of the causes are interlinked -- cost-overrun leads to inadequate working capital, diversion of

(..continued)

Companies", Working Paper, Institute for Studies in Industrial Development, January 1996.

14. T.C.A. Anant, et. al., op. cit., pp. 11-13.

15. The term mismanagement is broadly referred to as management related problems such as production mismanagement, marketing, financial and managerial deficiencies, etc. The production mismanagement includes: inappropriate product mix, imbalances in plant and machinery, poor inventory management, low capacity utilization, high cost of production, and continuing to employ obsolete plant and machinery. The second type of mismanagement is that due to lack of sound marketing strategy and planning, low sales realisation, delivery slippages. The third type of mismanagement has been that of the working capital problem due to diversion of funds, poor financial planning, financial irregularities and low equity base, etc. The last type refers to the deliberate mismanagement such as siphoning away of funds whether to associate concerns or for personal purposes, lack of professionalism in management, internal dissensions, inefficient management, etc.

funds, low capacity utilisation, and poor sales, etc. Inability to pay workers' dues on time may lead to labour unrest. While it may be possible to single out one particular cause as the main reason for sickness of a unit, it may not be assumed that it was the sole cause.

The following discussion on the causes of sickness in joint and private sectors is based on an analysis of the cases disposed off by the BIFR up to December 1992 under sections 17(2), 18(4), and 20(1) of the SICA. Of the total 594 cases decided by the BIFR, we could get the case studies relating to 547 companies i.e., 91 per cent of the total.[16] Out of the 547 cases, 469 belong to the private sector and 78 to the joint sector. Comparatively fewer number of joint sector companies were in the worst financial position as can be seen from Table - 4.

Table - 4

Extent of Sickness in Joint and Private Sector Companies Referred to BIFR

S. No.	Ratio of Accumulated losses to Net Worth	Joint Sector	% Sector	Private	%	Total	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	1 - 2	24		112		136	
2.	2 - 3	13	47.44	98	44.78	111	45.16
3.	3 - 4	11		76		87	
4.	4 - 5	8		41		49	
5.	5 - 6	10	37.18	30	31.34	40	32.18
6.	6 - 10	7		63		70	
7.	10 - 15	4		27		31	
8.	15 & above	1	15.38	22	23.88	23	22.67
	Total	78		469		547	

Source: Same as in Table - 2.

Further, relatively fewer number of joint sector sick companies were asked to wind up. The amount locked up in such companies was also far lower compared to the private sector companies (See Table - 5).

16. These are available in Government of India, Ministry of Finance, BIFR, Industrial Sickness: Case Studies, (various industry-wise volumes).

Table - 5

Sector-wise Distribution of Orders Passed by the BIFR

(Amount in Rs. crores)

S. No	Order	Joint Sector			Private Sector		
		No. of Cos.	Amount of Dues	No.of Emp-loyees	No. of Cos.	Amount of Dues	No. of Emp-ployees
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Time Limit Fixed for making net worth positive	30	238.03	10859	137	657.94	70353
2.	Rehabilitation Scheme was Sanctioned	33	282.50	9719	219	1375.77	172999
3.	Orders passed for winding up	15	52.62	2051	113	632.52	85298
	Total	78	573.15	22629	469	2666.21	328650

Source: Same as in Table - 2

The BIFR reports list the main causes for sickness as identified by the operating agencies. These causes are, however, not given any weightage or ranking which could have indicated their relative importance. In view of this, we have added up the number of times a cause appears to identify its relative importance in a sector. For purposes of this exercise, we have classified the reported causes of sickness into (A) internal and (B) external ones. Internal causes were further classified as those relating to: (1) planning and implementation; (2) management (production, financial, marketing and general management problems); and (3) labour and industrial relations. The main external causes analysed were: (1) infrastructural bottlenecks; (2) raw material problems; (3) market constraints; (4) government controls and policies; and (5) other extraneous factors. Of the important causes of industrial sickness enumerated above, the major ones are arranged in the descending order of their frequency of occurrence. The results are presented in Table - 6.

Table - 6

Sector-wise Analysis of Causes of Sickness

S. No.	Causes	Private Sector		Joint Sector		Total	
		No.	%	No.	%	No.	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
A.	**Internal Causes**						
1.	Management Related Deficiencies						
	(a) Managerial	371	79.10	52	66.67	423	77.33
	(b) Production	315	67.16	52	66.66	367	67.09
	(c) Financial	300	63.97	53	67.95	353	64.53
	(d) Marketing	216	46.06	35	44.87	251	45.88
2.	Labour & Industrial Relations	257	54.80	23	29.49	280	51.19
3.	Cost-Overruns Project Planning & Implementation	196	41.79	42	53.84	238	43.51
B.	**External Causes**						
1.	Infrastructural Constraints	183	39.02	38	48.72	221	40.40
2.	Raw Material Problems	169	36.03	33	42.31	202	36.93
3.	Market constraints	202	43.07	28	35.90	230	42.05
4.	Government controls & policies	113	24.09	28	35.90	141	25.78
5.	Other Extraneous factors	43	9.17	11	14.10	54	9.87

Source: Same as in Table VII.2

Note: i) Number of companies are those which were affected by the particular clause.

ii) The percentages in column (3), (5) and (7) are calculated with respect to the total number of cases in each case i.e. 469, 78 and 547 respectively.

5.1 Internal Causes

(1) Management Deficiencies

It would be seen from Table - 6 that management deficiency (which also includes dissensions in management, lack of professionalism in management, weak management and dishonest management) is the most widespread cause of industrial sickness, found in nearly four-fifths of the private sector sick companies. In the case of joint sector, it was less prevalent as it affected only two-thirds of the sick JSEs. This can be interpreted in two ways. One, the joint sector is a better performer because the public sector financial institutions participate directly in their management. Alternatively, the fact that so many of them suffered from managerial deficiencies can be seen as a failure of the institutions to properly monitor the functioning of JSEs. Deficiency in production management is the second most serious cause and there was not much of a distinction between the two sectors in this regard. Even in the case of financial and marketing deficiencies -- the third and fourth standing deficiencies -- too one can hardly distinguish the two sectors.

(2) Labour and Industrial Relations

When the companies get affected by sickness, wage payment to workers gets delayed or stopped altogether, bonuses are not paid and the labour unions insist for these benefits. This is true irrespective of the industry. More than 54 per cent of the companies were affected due to labour unrest and other related problems in the private sector. In sharp contrast, only about 30 per cent of the joint sector companies were affected by such problems. This factor also shows the joint sector in a better light and it may possibly be due to the close involvement of the financial institutions.

(3) Cost Overruns and Planning & Implementation

Cost overruns turned out to be the major cause of sickness for new units, many of which were in trouble almost since inception. Understandably, this factor did not come out to be relevant for companies in textiles and jute industries; both comparatively older industries. Sickness due to time and cost overruns is of various types: a heavy dependence on borrowed funds, delays by various governmental and public authorities in granting licences, sanction of power connection, supply of water, etc. and slippages of delivery schedules by machinery suppliers. The last mentioned possibility occurs when many entrepreneurs seek to enter the industry almost simultaneously. Delay in sanction of funds or sometimes delay in the release of sanctioned funds by the banks and financial institutions also play a significant role. As many as 196 private sector sick companies forming more than 40 per cent of the sick private sector companies studied had suffered from lack of planning and implementation and due to cost overruns. The percentage of joint sector sick companies under this category was considerably higher at 53.84 per cent.

5.2 External Causes

(1) Infrastructural Problems

Infrastructural bottlenecks turned out to be a prominent cause for sickness in both joint and private sectors.[17] Out of the total 469 private sector companies studied, 183 (39.02 per cent) have suffered due to inadequate infrastructural facilities. Relatively a

17. A similar conclusion was drawn in a study of sick companies which observed that "(W)hen inviting industries to backward areas state governments should simultaneously take steps to develop infrastructural facilities, the absence of which is one major cause of sickness". See: M.S. Narayanan, op. cit., p. 373.

larger proportion (38 out of 78 i.e. 48.72 per cent) of sick units in the joint sector were affected due to one or the other type of infrastructural problem. The most significant problem experienced by these units was inadequate and disturbed power supply. This is in sharp contrast to the expectation that participation of the state promotional agencies would ensure that the joint sector units would get the necessary infrastructural facilities. On the contrary these units have suffered the same problems as being faced by their counterparts in the private sector. We have noted earlier that many of the JSEs were located in industrially backward areas. From a closer examination it was found that almost 60 per cent of the sick JSEs located in backward areas suffered from infrastructural problems. Interestingly enough, three states namely Andhra Pradesh, Kerala and Rajasthan accounted for 26 out of these 38 sick JSEs. It is also likely that such unfavourable location may have adversely affected the implementation of projects noted earlier.

(2) Raw Material Problems

Increase in raw material costs and problems relating to supply of raw materials affected about 37 per cent of the sick units. In this case also joint sector companies were affected to a larger extent compared to the private sector companies. Unfavourable location may once again could be responsible for this situation as 45 per cent of the JSEs located in backward areas suffered from raw material problems.

(3) Market Constraints

A general decline in demand and other adverse situation faced by the industry was the main constraint included under the category. There were other causes specific to the respective products (e.g. like piracy in music hurting the music cassettes company). This factor has affected the private sector companies more compared to the JSEs.

(4) Government Policies and their Implementation

Government policies generally exert a direct influence on industries in several ways in view of the extensive regulatory system in operation. The most common are frequent changes in import or export policies, changes in customs and excise duties, restrictions on movement of goods, introduction or withdrawal of special concessions, and so on. Industrial performance will also be affected adversely if the promised policy changes and programmes are not implemented. Interestingly, this type of problems affected JSEs (35.90 per cent) much more than the private sector companies (24.09 per cent).

(5) Other Extraneous Factors

In addition to the above mentioned reasons there may be other external factors such as law and order problems, natural calamities like floods/droughts/cyclones, and fire and industrial accidents which are beyond the control of firms. Understandably relatively fewer number of companies were affected by such causes. These were 43 (9.17 per cent) in private sector and 11 (14.10) in the joint sector.

In the overall it appears that internal causes affected the joint sector to a lesser extent compared to the private sector companies. Converse can be said to be true in the case of external causes over which the companies have no reasonable control. In the case of cost-overruns and project implementation JSEs did perform worse than the private sector companies but it could be attributable to the choice of location which in a sense was induced by official policy. Even though JSEs suffered slightly more from finance related problems, a closer examination of the management related problems revealed that joint sector companies were affected least by financial mismanagement, diversion of funds to group firms and similar fraudulent practices. Out of the 36 companies affected by such problems only 3 were in the joint sector. Even in the case of other serious management problems like inefficiency and non-professionalism, joint sector turned out to be better as 32 per cent of JSEs were affected by the problem compared to 40 per cent in the private sector. However, this does imply that there is a need for exercising greater care in choosing private sector partners in JSEs.