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Sickness [Unit - III]

Sickness In Industrial Units Is A Gradual Process & Does Not Develop Suddenly. In The Initial Stages, It Gets Reflected In the Form Of Defects & Mistakes In The Unit's Functional Areas, Like Production, Finance & Mgt., Later On It Is Observed In The Form Of Symptoms Like Irregular or Unsatisfactory Turnover In the Account, Slow & Unsatisfactory Movement Of Stock, & Decline In Production.

The Term Industrial Sickness Has Been Defined In A Number Of Ways & Its Concepts Lack Uniformity. The Sick Industrial Co. (Spc. Prov.) Act 1985 Identifies Sickness In Terms Of Cash Losses for Two Consecutive Financial Years & Accumulated Losses Equalling or Exceeding The Net Worth Of the Co. At The End Of The Second Financial Year.

At Last Sickness, More or Less Has A Perfect Positive Correlation With Profitability. Profitability Alone Can Generate Cash Surplus For An Industrial Unit To Meet Its Various Obligations To The Creditors Like Financial Institutions the Govt. & others.

Causes Of Sickness

Internal Causes

1. Planning :→

(A) Technical Feasibility :→

- Inadequate Technical Know How.
- Locational Disadvantage
- Outdated Production Process

(B) Economic Viability :→

- High Cost Of Input
- Break Even Point Too High
- Uneconomic Size Of Project
- Under Estimation ~~Size~~ Of ~~fin~~ Financial Req.
- Over - Estimation Of Demand

2. Implementation :-> Inadequate Mobalisation Of Finance.

3. Production :->

(A) Production Management :->

- Inappropriate Product Mix
- Poor Quality Control
- Poor Capacity Utalisation
- High Cost Of Production
- Poor Inventory Mgt.
- High Wastage

(B) Labour Management :->

- Excessive High Wage Structure.
- Inefficient Handling Of Labour Problems.
- Excessive Manpower.
- Poor Labour Productivity.
- Poor Labour Relations

(C) Marketing Management :->

- Poor Sales Realisation.
- Defective Pricing Policy.
- Weak Market Organisation.
- Lack Of Market Feedback & Research.
- Lack Of Knowlege Of Marketing techniques.
- Limited No. Of Products.

(D) Financial Management :->

- Poor Resource Mgt. & Financial Planning
- Faulty Costing.
- Liberal Dividend Policy
- Deficiency Of Funds
- Inadequate Working Capital

(E) Administrative Management :->

- Lack Of Professionalism.
- Lack Of Controls
- Lack Of timely Diversification.
- Excessive Exp. On R&D
- Dishonest Mgt.

EXTERNAL CAUSES.

1. INFRASTRUCTURAL BOTTLENECKS :-
   - NON - AVAILABILITY OF IRREGULAR SUPPLY OF RAW MATERIAL
   - ~~CHOR~~ CHRONIC POWER SHORTAGE.
   - TRANSPORT BOTTLENECKS.
2. FINANCIAL BOTTLENECKS :-
   - NON AVAILABILITY OF ADEQUATE FINANCE.
3. GOVERNMENT CONTROLS & POLICIES :-
   - GOVT. PRICE CONTROLS
   - FISCAL DUTIES
   - ABRUPT Change IN GOVT. POLICIES
4. MARKET CONSTRAINTS :-
   - MARKET SATURATION
   - REVOLUTIONARY TECHNOLOGICAL ADVANCE RENDERING ONE'S PRODUCTS OBSOLETE.
5. EXTRANEOUS FACTORS :-
   - NATURAL CALAMITIES
   - POLITICAL SITUATION
   - WAR
   - SYMPATHETIC STRIKE
   - MULTIPLICITY OF LABOUR UNIONS.

SYMPTOMS OF SICKNESS

① PERSISTENT SHORTAGE OF CASH OR LIQUID ASSETS.

② CONSTANTLY WORSENING TREND OF CURRENT RATIO. With CURRENT ASSETS PROGRESSIVELY FALLING SHORT OF CURRENT Liabilities.

③ UNSATISFACTORY DEBT EQUITY RATIO.

④ DEFAULTER CASE IN PAYMENT TO SUPPLIERS, EMPLOYEES, BANKS & FINANCIAL INSTITUTIONS.

⑤ FREQUENT REQUEST, IN CASE OF ~~HEAVEY~~ HEAVY DEFAULTER FOR RESCHEDULING the PAYMENT OF the INSTALMENT & DEMAND to WAIVE OFF INTEREST during the CLOSING PERIOD.

Organizational Fitness

Leadership
↓
Corporate Mission
↓
Management Goals
↓
Departmental Objective
↓
Individual Target
↓
Feedback
↓
Performance Review / Corrections

Market Situation →

→ Government Policies :→
Globalisation / Liberalisation / Restriction / Imports / Exports / Safety / Income Tax / Sales Tax etc.

→ Market Competitors :→
Present / New Entrants / Demand / Supply / Strength Weakness / Future Plan

→ Raw Material / Import / Power Position :→
Availability / Demand-Supply / Prices expected changes

→ Other External Forces / Factors
Sociological / Political

Revival Plan for Sick Units

SWOT Analysis will lead us to a meaningful revival plan & will also help in determining right tools, techniques & remedies to be adopted. The following seven steps for the revival plan given below :→

1. Finalise the Goals / Objectives / Targets for performance at all levels to meet the organization mission.
2. Issue policy guidelines on major aspects that affect the image of the company in public & the work culture inside the organization.
3. Initiate the preparation of detailed systems manuals for the maintenance, budget, costs, distribution, transportation, purchase, personnel etc.
4. Analyse past reports on production, quality, cost, performance, accounts, receivables etc. & the connected financial & audit reports.

...et Senior Executives from Mktg. / Finance / Land ... → with Competitors – to Assess the External Situation.

Brain Storm with A Select Group – to Get Creative I... For Improvement.

(7) Appraise the Board About the Diagnosis & Request Them To Spell Out A Clear "Mission" Of the Company.

Revival Network

Board Of Directors | Top Management | Middle Mgt. Department | Supervisory Group | Subordinates

Organizational Purpose / Mission → Long Range Goals

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Strategic Plans

↓

Long / Short Term

↓

Operational Obj.

↓

Action Plan & Target → Departmental Objective – Workobj.

Annual Plan & Target | Action Plan & Target | Individual Target

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Technique | Technique | Technique | Technique

↓

Feedback | Feed Back | Feedback | Feedback | Feedback

...MENT OF the Sick Industrial Companies Act, 1985, A Board For Industrial & Financial Reconstruction (BIFR) was Set Up In May 1987 Under the Administrative Control Of Ministry Of Finance.

Till March 31, 1998 BIFR Has Received 3148 Reference. The Board Has Sanctioned Rehabilitation Schemes For 625 Units, Recommended Winding Up For 579 Units & Declared 200 Units No Longer Sick.

A Sick Industrial Co. Has To Report Its Sickness To The BIFR, Once It Accumulated Losses At the End Of Financial Year Exceed 50% Of the Peak Net Worth Attained during the Period Of 4 Years Immediately Preceding The Financial Year.

BIFR Provides A Forum Where the Agencies Are Concerned Are Brought Together For Analysing, Diagnosing & Evolving A Reason Decision For Revival or otherwise Of the Sick Unit.

The Agencies Concerned Are ⇒

(i) Sick Industrial Unit.

(ii) State Government

(iii) Banks & Financial Institutes.

(iv) The Concerned Dept. Of the Central Govt.

SICA Has Invested BIFR With the Following Powers ⇒

(i) Potential Sickness Has to Be Reported to BIFR.

(ii) Mismgt. Of Industrial Units By Any Person Can Be looked In to BIFR & the BIFR May Direct that Person to Restore or Losses.

(iii) BIFR Can Initiate Changes In Mgt., Amalgamation Of the Sick Industrial Co. With Any other Healthy Company.

Remedial Measures

① Early Detection Of Sickness.

② Financial Institutions & Banks ...

Actions For Sick or Prone to Sickness Unit.

(3) Wherever, Possible Attempts Should Be Made to Restore Sick Unit

(4) The Proposal To Set Up A Special Institution.

(5) Incentives Should Be Given to Profe. Mgt. Helping In Reviving Sick Unit

(6) Visualising that the Mgt. Of A Unit that Has Lost Net worth In Entirely Will Not Be allowed to Manage that Unit Any More, Needs to Be Reconsidered.

(7) Mgt. Responsible For Mismgt. Should Not Be allowed Assistance From Financial Institution Even For New Ventures.

(8) It is Imp. that In Any Scheme Of Reconstruction Of A Sick Unit all the Stake Holders Bear Sacrifice On Equitable & Just Basis

(9) The Imp. Criterion For take over Of A Sick Unit By Another Co. Should Be whether the Co. taking over the Sick Unit Has Skill, technology & Finance to Save It.

(10) Debt - Equity Ratio ought to Be Realistic.

Behavioural, Economical & Technical Issues In Turnaround Management

[A] Behavioural Issues :->

(i) Positive Issues :->
1. Emergence Of Leader
2. Participation & Involvement Of Employees
3. Team & Synergies
4. Identification Of Potential
5. Measures Of Commitment & Loyalty Of Individual
6. Work Culture Development.

(ii) Negative Issues :->
1. Rigid Attitude Of People
2. Barriers Of Resistance
3. Problem Associated with Unlearning.
4. Source Of Conflict & Groupism
5. Some talents are Completely Neglected.
6. Undue Dominance Of Leader & Related Sub Dominating People.
7. Motivational & Morale Of People Goesdown.

[B] Economical Issues :->

(i) Positive Issues :->
1. Cost Conciousness
2. Control Over Wastage
3. Review Of Planned Strategy & Execution.
4. Mgt- Of Waste.
5. Lesson For Future :->
   (A) Productivity.
   (B) Investment.
   (C) Cost & Associated leverages.
   (D) Budget & Budgetary Control.

(ii) Negative Issues :-> (1) Vicious Circle Of Loss (2) Rejection Of financial Help & Assistance In Market (3) Mismgt. Of Money Due to time Constraint (4) Unilateral Policies May not Give Proper Result

Medium Of Technology Transfer

1. Through Business Firms.
2. Through Government.
3. Non Profit Organization.
4. Universities
5. International Organisation Such As World Bank, ADB, USAID etc.
6. Mobility Of Change Agent from One Place to Another.
7. Technology Supplier.
8. Through Web.

Issues Related With Technology Transfer

1. Is the technology Appropriately Transferable for large Scale Production?
2. How Does the technology transfer take Place?
3. How Can A Large No. Of People Be trained to make Use Of the technology?
4. What Will Be the Gains for the Developers Of the tech.?
5. Should The Technology Be Transfered Wholesale Or In Parts or Should the Transferors Themselves Enhance their R&D Efforts?
6. What Will Be the Cost Of Transfer Of technology & Benefits to the Transfree?

The Issues Here Is Not Only Of technology Transfer But Also the Availability Of Resource, Including Human Resource, With the Recipients, Major Resources Can Be Categorized As Follows:→

- Capital Required for the Purchase / Import Of technology.
- Availability Of Raw Material Req. for the Use Of the technology.
- Infrastructure Facilities.
- Availability Of Skilled Human Resource for the Use Of technology.