Corporate sickness has reached the proportions of an epidemic. Yet more than four-fifths of the large sick units are considered potentially viable.

Public financial institutions have a major stake in the revival of sick units, because they assist most and up to well over half their invested capital. What can they do to prevent sickness?

Professor Khandwalla conducted an interview-cum-questionnaire study of officials, especially 36 rehabilitation officers closely involved with sick units.

While inappropriate management is the major cause of sickness, financial institutions' own procedures and practices are also an important cause. Several recommendations emerge from the study for remediying the situation through early detection and timely preventive action.

Corporate sickness is a significant problem, not only in India, but also in many market economies. In the UK, over 10,000 units are estimated to fail each year. One out of every five firms listed on the stock exchanges turns sick (Slatter, 1984, p 18). Out of four sick firms, only one manages a successful turnaround. According to a recent study, one out of four companies listed on the US stock exchanges had turned sick during the decade 1967-1976 (Bibeault, 1982, p 11). Only a third of the sick companies recovered.

In India, it has been estimated that currently over 550 large units (twice the number in 1977) and over 130,000 small units (over six times the number in 1978) are sick, tying up nearly Rs 5,000 crore belonging to term lending institutions and banks (Gupte, 1987, p 2). Besides, over 20 per cent of central government public enterprises are loss making (The Economic Times, July 3, 1985). These now have a total investment of over Rs 50,000 crore.

Trends

Sickness has assumed the proportions of an epidemic. It seems to be growing. In the UK, business failures quadrupled between 1972 and 1982 (Slatter, 1984, p 18). In India, funds of financial institutions tied up in defaulting accounts are estimated to be growing annually at over 10 per cent doubling every seven years (Khandwalla, 1981). In fact, the rate may be accelerating. According to a Reserve Bank survey, outstanding bank credit to some 450 large sick units went up 11 per cent from Rs 1,729 crore in 1981-82 to Rs 1,913 crore in 1982-83 and that to over 60,000 sick small-scale units, it went up by nearly 60 per cent from Rs 394 crore in 1981-82 to Rs 627 crore. The overall rate of increase in bank credit to sick units was about 20 per cent in 1982-83 (Gupte, 1985; Pillai, 1985).

Rising Incidence

The problem of sickness in India is likely to grow
worse. The number of new units coming up every year is growing. Currently, some 10,000 new units come up every year, thanks to various incentives offered by the government, the financial support provided by the apex and state level financial institutions, and the facilities provided in industrial estates. The percentage of entrepreneurs receiving any sort of training in setting up and managing units is miniscule. Inadequate capacity to manage units may mean more and more units turning sick. Besides, liberalization of the economy and the advent of "sunrise" industries are likely to accelerate the pace of entrepreneurship. Equally, the liberalization of the licensing policy and of imports is likely to intensify competition. In such an environment, the incidence of sickness may well rise.

Potential for Reducing Sickness
Economic development probably implies some industrial sickness. But its ravages can be reduced. An officer of the Gujarat Industrial Development Corporation estimated that about a quarter of the 8,000-odd units in the GIDC sheds were sick. But of these, as many as 60 percent were in his opinion, salvageable with better management. Based on viability studies, a Reserve Bank of India study estimated that 84 per cent of large sick firms and about 10 per cent of the small sick units were potentially viable (Gupte, 1985). The potential for reducing sickness is large. Besides, if effective steps can be taken, the incidence of sickness could itself be lowered. The incidence of sickness can be cut by half by devising steps to prevent sickness and by strengthening the machinery to turnaround salvageable sick units.

The Study
A questionnaire and interview survey was conducted to assess the major causes of sickness in India and the mechanisms available to financial institutions to prevent sickness. The respondents were 36 rehabilitation officers of Indian banks and financial institutions. Apart from inadequate management, deficiency in the way financial institutions deal with client units emerged as a significant cause of sickness.

What is Sickness?
The Reserve Bank of India considers a unit sick if it has incurred a cash loss for a year and is likely to incur a cash loss in the current and coming years, along with a poor financial structure, that is, current ratio less than 1:1, worsening debt-equity ratio (Bidani & Mitra, 1981, p 26). The term lending institutions consider a unit as sick if it has consecutively defaulted on four half-yearly loans and interest instalments, has made cash losses for two consecutive years or has lost 50 per cent of its net worth, and has mounting arrears of statutory and other liabilities (Bidani and Mitra, 1981, p 26).

In judging a unit's on-going performance, it is useful to gauge its extent of sickness. Comparing its current performance with its performance under comparable business conditions in the past, and its current performance with other comparable units in the industry known to be efficiently managed, can provide clues. These two comparisons provide a rough indication of how far below its performance potential the unit is operating. A unit may be considered sick when it is operating way below its performance potential, even if it is not making cash losses or defaulting, and prospects are not good for improved operations closer to performance potential (Khandwalla, 1981).

There should be no confusion between sickness of the unit and poor performance beyond the control of the unit's management. A unit may be making cash losses because the industry itself is in a deep recession. In such a case, the industry is sick, not the unit. Any revival action should be industry-oriented rather than unit-oriented.

Revival efforts initiated early, when the unit is performing well below its potential, yield better dividends than when the unit is officially sick (Khandwalla, 1981). Identification of relatively poor performance can cue the unit and the financial institutions to early revival efforts without waiting for the unit to make cash losses. Earlier the revival efforts, the faster, more effective, and less expensive is the turnaround. From a social viewpoint, the closer the enterprises operate to their performance potential, the better generally is the resource utilization. Any efforts of stakeholders, including the management, the government, and the financial institutions to keep enterprises operating at or near their performance potential would yield good dividends for the economy.

What Leads to Sickness?
Most studies agree that sickness can be caused by a wide variety of factors (Argenti, 1976). Broadly speaking, sickness can be caused by factors internal
to the organization, such as inadequate manage-
ment, wrong technology, or a sub-optimal plant, 
and/or by factors external to the organization, like 
increased competitive pressure, recession, input 
shortages, changes in government policies, or dis-
turbed industrial relations.

External Vs. Internal Factors

Even in America, external factors—slumps, ex-
change rate changes, credit squeezes, and inflation 
—were considered responsible for only about 10 
per cent of corporate declines. On the other hand, 
internal causes of decline, such as one man rule, 
lack of management depth, succession problems, 
inbred bureaucratic management, weak financial 
control, an unbalanced top management, and a 
weak board, accounted for about 70 per cent of de-
clines. The remaining 20 per cent declines were 
caused by a mix of external and internal factors 
(Bibeault, 1982, Ch 5).

A study of 378 large sick units commissioned 
by the Reserve Bank of India in 1981 also indicated 
that about two-thirds of the units had become sick 
due to mismanagement of one kind or another— 
diversion of funds, infighting, lack of marketing 
strategies, faulty project planning, and faulty 
choice of technology (Morris, 1982, p.47). External 
causes accounted for the sickness of the remaining 
units. Market recession contributed to the sickness 
of 23 per cent. Besides being the prime cause of 
most sickness, inadequate management is also a 
strong secondary or contributory cause. As a 
British researcher put it:

"...a crisis situation is likely to occur most 
frequently when a firm, already weakened by 
poor management, lack of control and ineffi-
ciency, is subjected to adverse movements in 
market demand and commodity prices, price 
competition and ... problems resulting from 
the so-called big project." (Slatter, 1984, 
p.55).

Concentration of Corporate Sickness

There is evidence that corporate sickness is con-
centrated in some regions, industries, and sectors.

Regional Concentration. A 1983 Reserve Bank of 
India survey indicated that corporate sickness is in 
part a regional phenomenon. For instance, West 
Bengal accounted for 23 per cent of the 463 large 
sick units and 19 per cent of the small sick units. 
Other states with many large and small sick units 
were Maharashtra* U P, Tamil Nadu, and 
Karnataka. The two states of West Bengal and 
Maharashtra accounted for about half the large 
sick units in the country.

Industry-Specific Concentration. Sickness may also 
be partly an industry phenomenon (Dixit, 1984). 
For instance, upto 1982, just four industries— 
textiles, rubber products, transport equipment, and 
metal products—accounted for 72 per cent of the 
assistance sanctioned by the Industrial Reconstruc-
tion Corporation of India, an institution 
dedicated entirely to rehabilitating sick units..

Sectoral Concentration. Sickness may in part be a 
sectoral phenomenon. A study in the mid-seventies 
indicated that the profitability of large private sec-
tor companies was generally far higher than that of 
central public sector enterprises in the same in-
dustries (Sri Ram et al, 1976). Also, while less than 
15 per cent of large private sector companies were 
sick, over 20 per cent of central public sector units 
in any year were loss making.

Major Causes of Sickness

The major causes of corporate sickness are:

• Poor Quality of Top Management
• Poor Project Management
• Organizational Transition
• Bureaucratization

These are briefly explained below.

Poor Quality of Top Management. The poor quality 
of top management may show in one of several 
forms: excessive conservatism, excessive compla-
cency, growth mania, poor financial control, exces-
sive centralization and authoritarianism, weak 
board and a weak watchdog 'function, excessive 
commitment to policies that worked well once but 
are no longer appropriate, poor financial or 
marketing management (Hegde, 1982).

Poor Project Management. Project cost escalation 
may be a significant promoter of sickness in India 
(Bidani and Mitra, 1981, pp 59-60). In many
industries, project costs have doubled or tripled over a decade. The problem is aggravated by cost overruns. Thus, delays in commissioning projects may seriously inflate costs and render a unit non-viable. Besides, cost per ton of capacity can vary widely—by factors ranging from two to four—depending on the size of the plant. Wrong choices of plant size and technology can lead to sickness.

**Organizational Transition.** Many declines tend to take place during organizational transitions (Bibeault, 1982, p 18). Some 40 per cent of the 81 turnaround cases studied by Bibeault were in transition during the decline phase. For instance, once an entrepreneurial venture has been established, the failure to induct a professional manager to set up systems such as financial control and production planning may lead to sickness; if a professional manager is hired, and the organization grows, excessive centralization may lead to sickness. If decentralization takes place, and a management control system is in operation, the depersonalization that follows may cause sickness, unless management infuses core values in the rank and file that can act as a binding force.

**Organizational Size and Bureaucratization.** Organizational size often leads to bureaucratization, which may be an important cause of sickness. Large size implies growing reliance on rules and regulations, hierarchy, and specialization of functions. These, in turn, can lead to alienation of staff, distorted communications, administrative rigidity, interdepartmental conflicts, and sub-optimization, leading to sickness (Blau, 1980; Crazier, 1964; Gouldner, 1954; Khandwalla, 1977, Ch 13).

**Easier to Remedy Major Causes**

The major causes of sickness are not necessarily the major inhibitors of revival. For instance, in a British study of 40 turnaround cases, the four major causes of sickness were found to be lack of financial control, an inadequate chief executive, price competition, and operating inefficiency (Slatter, 1984, p.53). However, of the four, only price competition was found to be a major inhibitor of recovery. In other words, not only was price competition a common cause of sickness, the chances of recovery of units falling sick because of price competition tended to be slim. Three other major inhibitors of recovery were a sub-optimal plant, high overheads, and weak marketing. The more the major inhibitors of recovery show up as the causes of sickness of a unit, the less salvageable is the unit. The other major causes—poor financial control, an inappropriate chief executive, and operating inefficiency are easier to remedy.

**Lead Indicators of Corporate Sickness**

What are the lead or predictive indicators of corporate sickness? An Indian study has identified the lead indicators of sickness, applying discriminate analysis to financial indicators over the 13-year period, 1962-74, to a sample of 40 cotton textile companies (Gupta, 1983). Certain earnings ratios gave the best results. They were:

- earnings before interest, taxes, and depreciation to sales
- earnings after interest and taxes, but before depreciation, to gross assets.

The study also found that ratios related to net worth and liquidity were not as reliable. Although balance sheet ratios were not as good a set of predictors as profitability ratios, the two ratios that were found to be useable were:

- net worth to short- and long-term debt
- all outside liabilities to tangible assets.

**The View from the Rehabilitation Desk**

Sickness is a complex, multidimensional phenomenon caused by different constellations of interacting causes. The perceptions of officials of financial institutions, who deal with these complex problems on a continuing basis, would be important.

Forty causes of sickness were identified during interviews with officers of the apex term lending institutions—Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), and the Industrial Finance Corporation of India (IFCI). They covered:

- industry-specific factors like recession and competition
- government-related factors like poor maintenance of law and order, inadequate provision of infrastructural facilities, and frequent changes in government policies
- financial institution-related factors such as deficiency in support
- management-related factors.

A questionnaire was developed to assess the rela-
tive importance of the various factors. Thirty-six rehabilitation officers dealing with sick units from two apex financial institutions (IDBI and ICICI) and commercial banks scored items on a four-point scale to rate the importance of each cause. These officers had been with their respective institutions for an average of about 16 years, and had been involved in monitoring and assisting sick units for an average of nearly three years. Of these 36 officers, ten belonged to IDBI, four to ICICI, six to the State Bank and its subsidiaries, 11 to the other nationalized banks, and the remaining five to private sector banks.

**Classification of Causes**

Each cause was classified as major, moderate, or minor based on its average score. Causes with a mean score of 2.8 and above were considered major, those with means between 2.3 and 2.7 were considered moderate, and those with means below 2.3 were considered minor. Table 1 presents the causes thus classified.

**Major Causes.** As many as ten out of 13 major causes were management-related. They included corrupt management, inadequacies in functional management (finance, manufacturing, marketing), poor general management (too much centralization in decision making, low commitment to professional management, weak control by the board, lack of cohesion due to infighting), and poor initial choices of technology and investment. Two major causes were government-related: frequent policy changes, and inadequate power/fuel supply. The thirteenth major cause was disturbed industrial relations.

**Moderate Causes.** The moderate causes of sickness included adverse industry conditions (excess capacity, competition, stagnation or recession); adverse government behaviour (price control, erratic availability of inputs, liberalized imports of competing products); adverse behaviour of financial institutions (delay in providing finance, inadequate provision of working capital and investment finance, and poor assessment of project finance proposals); and poor unit management (conservatism, bureaucratic functioning, slackness, nepotism, and poor image). As many as ten out of 13 moderate causes of sickness were seen to relate to external factors.

**Minor Causes.** The minor causes may well be major causes in particular situations. However, they were seen to be minor overall and included political interference, interference by financial institutions in the management of the unit, poor law and order situation, and unhelpful governmental machinery.

**Prime Contributor to Sickness**

In the judgement of the rehabilitation officers, the number one contributor to sickness is the unit's management, although the conditions in the unit's industry and the errors of omission and commission by the government and the financial institutions are significant contributory factors.

**Constellation of Causes**

It may be that some causes tend to occur together because of mutual causation or otherwise. These syndromes or constellations of causes could be particularly powerful sources of sickness. To identify such constellations, the data on the 40 causes of sickness were subjected to factor analysis (varimax rotation of principal components). Eleven factors emerged, each with a minimum eigen value of 1.00. They are shown in Table 2.

These 11 factors explained 80 per cent of the total variance in the 40 variables. Three factors—traditional management, poor support of financial institutions to the unit, and adverse government behaviour explained nearly half of the variance explained by the 11 factors, each explaining more than 10 per cent of the total variance. The three factors and the highest loading variables were:

- traditional management—nepotism, weak board, and excessive centralization
- financial institutions—insufficient supply of working and long term capital to the unit and delay in sanctioning funds
- government—political interference, unhelpful governmental machinery, and bad law and order situation.

**Poor Support of Financial Institutions**

The 36 respondents were asked to list sickness producing factors not covered by the 40 items listed in the questionnaire. The additional causes of sickness that the officers cited are given in Table 3.

Some of the causes of sickness they listed are:
• softness of financial institutions in dealing with incompetent managements
• lack of coordination and information sharing between the financial institutions, banks, and relevant government agencies
• weak control of the financial institutions over project implementation
• reliefs and concessions that seem to reward sickness; difficulties of units with projects in backward areas
• the inability of financial institutions to detect sickness early
• diversion of short term funds for long term uses (and, possibly, vice versa)
• lack of cooperation of state financial corporations
• delays in obtaining payments from government agencies.

Although serious, most of the causes listed above are remediable. They relate to financial institutions, and their relationship with the unit, the banks, and the government. Especially critical are:
• better project appraisal and monitoring of project implementation
• timely detection of sickness and quick, coordinated response to it
• reliefs and concessions only to units with competent and ethical management.

What Can Financial Institutions Do?
Initial interviews with officers of apex and other financial institutions indicated 15 mechanisms that the financial institutions use, or can use, to prevent sickness. The 36 rehabilitation officers of financial institutions and banks rated the usefulness of each of these mechanisms on a four-point scale. Table 4 lists these mechanisms in the order of their perceived usefulness.

More Useful Mechanisms. The periodic financial report from the unit was seen as the most useful followed by periodic inspection visits to the unit, inter-institutional meetings, independent assessment by financial institutions of the projections made by the unit for getting project finance, formal training for financial institution officers playing a monitoring role vis-a-vis units, market intelligence cells within financial institutions. The combined wisdom of rehabilitation officers points to the efficacy of:
• continuous monitoring of the unit right from the project finance proposal stage
• a professional response to the needs and problems of the client unit.

Less Useful Mechanisms. Good character certificates for chief executives of units seeking project finance, outsider nominees of financial institutions on the boards of borrowing units, the use of external consultants to evaluate funding requests, compulsory management training requirement for the top executives of borrowing units, and financial institution's nominees on client's board were seen as much less useful.

Additional Mechanisms
The respondents were asked to list additional sickness preventing mechanisms. Table 5 lists the additional mechanisms they suggested.

Some of the interesting suggestions are:
• a smaller project finance consortium to facilitate quicker response to sickness
• greater autonomy to monitoring officers in the financial institutions
• better liaison with the assisted units through, for example, officers of financial institutions being on deputation.

Reducing the size of the consortium makes sense, especially for relatively modest project finance proposals that do not involve a large risk to any financial institution. Greater autonomy for monitoring officers, and officers being sent as advisers, can be effective if these officers are well-trained in professional industrial and financial management. Otherwise, they may aggravate sickness through uninformed interference.

Besides these possibilities, the "premium rebate for no claim" idea in insurance is worth considering, that is, there could be incentives for remaining healthy such as interest rebates that increase with the period of health. Equally, of course, there could be penalty interest on avoidable project cost escalations, due, for example, to avoidable delay in project implementation, and amateurish sales and profit projections that subsequently go haywire (provided, of course, that this additional interest burden does not push a unit into sickness)


**Revival of Units**

Experts have suggested that for revival purposes, it may be useful to distinguish three types of sickness situations—the hopeless cases, short-term survivors and sustained recovery possibilities (Slatter, 1984, pp 115-120).

The hopeless case is characterized by such factors as a severe decline in the unit's core business area; a single product, single plant operation that makes divestiture difficult; and relatively high fixed costs in relation to value added, which makes the unit highly vulnerable to even modest business declines. The short-term survivors can break even for a while but have no long-term competitive advantage. They may survive in a boom but are likely to go under in a recession. The third category consists of those with potential for sustainable recovery. They have a good product or process base; and their sickness is due primarily to poor management.

The policy implication for financial institutions would be to stop assistance to the hopeless cases, give full but conditional assistance to those with potential for sustainable recovery, with some ambiguity about what to do vis-a-vis the short-term survivors. The earlier, and better, the diagnosis, the lower would be the costs of effective action.

**Conclusion**

This study confirms the findings of earlier studies that the major cause of enterprise sickness is inappropriate management. Such external causes as recession and competition are essentially secondary factors, although they could be primary in particular instances.

Earlier studies glossed over sickness arising from the way the financial institutions treat units; the present study indicates that this may be a significant cause of sickness. The present study has identified several clusters of causes. Clusters of causes may have more devastating consequences than any single cause. They provide a typology for developing turnaround strategies, each appropriate for a major cluster.

The prime responsibility for preventing sickness obviously rests with the units and their management. However, since inappropriate management is a major cause of sickness, the government and the financial institutions have a major responsibility for detecting incipient sickness and preventing it. To this end, the government has taken a number of policy decisions, ranging from setting up review boards, throwing responsibility on the management to inform these boards of sickness, giving tax incentives to healthy units to absorb sick units, and prescribing severe penalties for managements that wilfully make a unit sick.

The responsibility of the financial institutions for detecting and preventing sickness is clear: they generally contribute well over half the capital employed in the assisted units. Besides, they are in a strong position both to detect sickness early and to prevent it, because of their day-to-day dealings with their clients. Gearing the financial institutions, up for the early detection and prevention of sickness is the major hope for bottling the jinn of sickness. Our findings support developing an institutional system as proposed in Exhibit 1.

The main elements of the model are:

- careful project appraisal
- continuous monitoring of units, especially during project implementation
- a professional, speedy, and coordinated institutional response to the problems of the units
- installation of required systems at the units
- incentives for remaining healthy and disincentives for actions contributing to sickness.
### Exhibit 1

**Institutional System For Preventing Sickness**

<table>
<thead>
<tr>
<th>Continuous Monitoring</th>
<th>Careful Project Appraisal</th>
<th>Institutional Response to Unit Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Periodic financial reports</td>
<td>* Independent verification of sales, profits, etc. projections of the client</td>
<td>* Training of desk officers and deputed advisers in professional industrial and financial management</td>
</tr>
<tr>
<td>* Desk Officer for client unit</td>
<td>* Careful scrutiny of technology and plant size choices location, government-related contingencies, and quality of management</td>
<td>* Discretionary authority to monitoring desk officer to commit the institutions (up to some limits) to immediate contingency reliefs</td>
</tr>
<tr>
<td>* Institutional nominee(s) on the board</td>
<td>* Use of external consultants for appraising large or &quot;risky&quot; projects</td>
<td>* Better coordination and faster response by financial institutions through a smaller consortium</td>
</tr>
<tr>
<td>* Periodic inspections</td>
<td></td>
<td>* Lead agency concept</td>
</tr>
<tr>
<td>* Institutional adviser deputed to monitor implementation of &quot;risky&quot; ventures</td>
<td></td>
<td><strong>Incentives to Units to Remain Healthy</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Interest relief if no sickness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Penal interest for avoidable project escalations, careless or false sales and profit projections</td>
</tr>
</tbody>
</table>

**Required Systems of Client Units**

| * Approval of financial institutions for appointing (or removing) internal and statutory auditors | An Institutional System for Preventive Sickness                                      |
| * Professional management training for promoters   |                                                                                       |

Vikalpa
<table>
<thead>
<tr>
<th>Major</th>
<th>Moderate</th>
<th>Minor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Corrupt management of unit</td>
<td>1. Stagnation in industry</td>
<td>1. Interference of financial institutions in unit's management</td>
</tr>
<tr>
<td>2. Lack of commitment of unit's management to professional management</td>
<td>2. Competition in industry</td>
<td>2. Restrictions under FERA, MRTP, etc.</td>
</tr>
<tr>
<td>3. Infighting within units' management</td>
<td>3. Excess capacity in industry</td>
<td>3. Tax burden on unit</td>
</tr>
<tr>
<td>5. Too much centralization in decisions</td>
<td>5. Erratic availability of inputs</td>
<td>5. Harshness of financial institutions</td>
</tr>
<tr>
<td>7. Excessively rosy assessment of investment by management</td>
<td>7. Delay in finance provided by financial institutions</td>
<td>7. The government going back on its promises to unit</td>
</tr>
<tr>
<td>8. Poor financial management of unit</td>
<td>8. Inadequate working capital provided by financial institutions</td>
<td>8. Customer resistance to unit's product</td>
</tr>
<tr>
<td>11. Inadequate power/fuel supply</td>
<td>10. Inadequate long-term finance provided by financial institutions</td>
<td>10. Political interference</td>
</tr>
<tr>
<td></td>
<td>13. Slackness in enforcing the accountability for performance of unit's managers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14. Poor image of management in the market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15. Too much nepotism and family domination of unit</td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Factors and Variables Causing Sickness

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage Variance Explained</th>
<th>Variables Loading Over +0.50 or below -0.50 on Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Traditional management</td>
<td>13.1</td>
<td>Nepotism (.81)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Weak board (.76)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excessive centralization (.75)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Slack management (.65)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bureaucratic management (.65)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of management commitment to professional management tools (.62)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Infighting within top management (.57)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Harsh treatment to staff (.52)</td>
</tr>
<tr>
<td>2. Poor support of institutions to unit</td>
<td>12.6</td>
<td>Inadequate supply of working capital (.91)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inadequate supply of long-term capital (.85)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delay in providing finance (.72)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Harshness of financial institutions in dealing with unit (.69)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inexpert assessment of unit's investment proposal by financial institutions (.61)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interference in unit's management (.59)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit squeeze faced by unit (.54)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stagnation in industry (.53)</td>
</tr>
<tr>
<td>3. Adverse government behaviour</td>
<td>10.3</td>
<td>Political interference (.86)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unhelpful governmental machinery (.72)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor law and order situation (.71)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inadequate power/fuel supply to unit (.59)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inadequate transport facilities (.56)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor financial management by unit (.55)</td>
</tr>
<tr>
<td>4. Poor operations management</td>
<td>7.1</td>
<td>Inadequate marketing capability (.83)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excessively rosy project assessment by management (.81)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor manufacturing management and cost control (.51)</td>
</tr>
<tr>
<td>5. Hostile operating environment</td>
<td>6.4</td>
<td>Competition (.82)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restrictions on expansion and diversification (.67)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer resistance to unit's products (.53)</td>
</tr>
<tr>
<td>6. A wheeler-dealer management</td>
<td>5.7</td>
<td>Reckless management (.65)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Frequent changes in government policies affecting unit (.61)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor image of management in the market (.54)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corrupt management (.33)</td>
</tr>
<tr>
<td>7. Liberal imports</td>
<td>5.4</td>
<td>Competition from imports (.85)</td>
</tr>
<tr>
<td>8. Tax burden</td>
<td>5.1</td>
<td>Tax burden on unit (.87)</td>
</tr>
<tr>
<td>9. Excess capacity</td>
<td>5.0</td>
<td>Excess capacity in industry (.84)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Erratic availability of inputs to unit (.67)</td>
</tr>
<tr>
<td>10. Price control</td>
<td>4.8</td>
<td>Price control by government (.85)</td>
</tr>
<tr>
<td>11. Disturbed industrial relations</td>
<td>4.4</td>
<td>Disturbed industrial relations (.73)</td>
</tr>
</tbody>
</table>

* Two variables, government going back on its promises to the unit, and wrong choice of technology by management, did not load more than 0.50 or less than -0.50 on any factor. Factor Loadings are given within brackets.
Table 3: Causes of Sickness cited by Rehabilitation Officers

A. Deficiencies of financial institutions
   - Soft treatment of incompetent management
   - Lack of coordination between the financial institutions and banks
   - Inadequate exchange of information among institutions, banks, and concerned government departments
   - Delay in extending temporary credit to tide over contingencies
   - Lack of control of financial institutions on project implementation
   - Inability of institutions and companies concerned to detect symptoms of sickness in time
   - Lack of timely detection of sickness, of prompt reporting of remedial measures, and delay in financial assistance
   - Ineffectiveness of cash credit system of advances of banks
   - Non-cooperative attitude of state financial corporations to the revival of sick units
   - Lack of facilities at financial institutions for establishing appropriateness of technology.

B. Deficiencies in enterprise management
   - Siphoning of funds for investment in other units; lack of integrity
   - Diversion of current finance for long-term purpose; weak capital base
   - No proper delegation of authority at the management level and concentration of powers in the managing director
   - Low stake of the entrepreneur leading to low involvement
   - Lack of business experience, capacity or instinct in the entrepreneur
   - Excessive investment in unproductive assets
   - Project implemented purely on a developmental angle in a backward area lacking infrastructural facilities fails to attract and retain good professional managers
   - The company enamoured by the incentives for setting up units in backward areas is unable to cope with lack of infrastructural facilities, resulting in low capacity utilization, long gestation period, and sickness
   - Delayed project implementation and unwanted capacity expansion.

C. Environmental and governmental factors
   - The government policy of providing many reliefs and concessions to sick units
   - Lack of compulsion to contain costs and ensure quality owing to the ill-effects of a protected market
   - Too high a rate of interest on borrowed capital
   - Irregular and low voltage power supply, sudden increase in power tariff
   - Long procedural system of inspections by government undertakings
   - Delayed payments by government departments and undertakings
   - Lack of coordination between the Bureau of Industrial Costs and Prices and wage boards resulting in pressures on the profit margins of industries whose prices are regulated.
Table 4: Usefulness of Institutional Mechanisms for Preventing Sickness Perceived by Rehabilitation Officers

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Usefulness Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Monthly or quarterly financial statements submitted by the company to the financial institutions</td>
<td>1</td>
</tr>
<tr>
<td>• Periodic inspection visits by individuals or teams from financial institutions</td>
<td>2</td>
</tr>
<tr>
<td>• Periodic meetings of the representatives of the financial institutions to exchange information about industries and common clients</td>
<td>3</td>
</tr>
<tr>
<td>• Independent assessment by financial institutions, through market research methods, of the appropriateness of sales projections and profitability submitted in funding requests by clients</td>
<td>4</td>
</tr>
<tr>
<td>• Programmes to train persons within financial institutions for monitoring and client assessment roles</td>
<td>5</td>
</tr>
<tr>
<td>• Market intelligence cells that keep in touch with informative contacts (bankers, shareholders, dalals, merchants, industrialists) for monitoring the problems and prospects of client units</td>
<td>6</td>
</tr>
<tr>
<td>• Appointment of internal and/or statutory auditors of the clients with the approval of financial institutions</td>
<td>7</td>
</tr>
<tr>
<td>• The lead agency concept among financial institutions (i.e. coordination of assistance to client by an agreed upon lead financial institution)</td>
<td>8</td>
</tr>
<tr>
<td>• Desk officers, or contact persons in the financial institutions, each of whom specializes in the affairs of a few designated units</td>
<td>9</td>
</tr>
<tr>
<td>• Industry cells in financial institutions that keep in touch with the developments in the industry, its problems, short and long term prospects</td>
<td>10</td>
</tr>
<tr>
<td>• Nominees from within financial institutions on the company's board</td>
<td>11</td>
</tr>
<tr>
<td>• Requirement that top managers of client undergo at least a short duration course in project management and general management before the client organization makes a funding request</td>
<td>12</td>
</tr>
<tr>
<td>• Use of external consultants to evaluate sizeable funding requests from clients</td>
<td>13</td>
</tr>
<tr>
<td>• Nominees of financial institutions on client's board from outside financial institutions</td>
<td>14</td>
</tr>
<tr>
<td>• Good character certificates from bankers, reputed industrialists, trade or industry association required to be furnished by chief executive of client at the time of loan application.</td>
<td>15</td>
</tr>
</tbody>
</table>

Table 5: Additional Sickness Prevention Mechanisms Suggested by Rehabilitation Officers

- Deputing an officer of a financial institution on whole-time basis, not as a substitute for, but as an adviser to, existing management.
- Deputation of officers of financial institutions to industry and vice versa.
- Individual officers of financial institutions should be designated to be in charge of one or two problem-prone units and given independence, discretion, and accountability.
- Financial institutions should organize themselves and establish a system of communication with the assisted units to be in a position to anticipate problems.
- Concentrate on areas of weakness and trends in operational spheres likely to adversely affect the health of the unit, with discretion to the agencies to take prompt and appropriate action.
- Reduction in the number of institutions/banks assisting each project to have speedy consortium decisions on the revival strategies of sick units.
- Quick and prompt payment of bills drawn by units.
- Training in procedures and formalities of sales tax, ESI, central excise and other statutory obligations to be given to managers of units.
References


