

SICKNESS IN SMALL BUSINESS

CAUSES AND CONSEQUENCES

SEM-VI[Hons.]

PAPER-DSE-4

20.12.22

What is a Small Enterprise?

- It is an unit employing less than 50 employees, if using power and less than 100 employees without the use of power and with a capital asset not exceeding Rs. 5 lakhs.
- -----definition provided by SSI board in 1955.

VARIOUS FORMS OF SMALL-SCALE INDUSTRIES.

There can be many types of small-scale enterprises like

- Modern Small-scale industry
- Cottage industry
- Village industry
- Ancillary industry

Types of Small-Scale Industry

- Manufacturing industries-industries producing complete articles.
- Feeder industries-casting, electro-plating, welding
- Serving industries-covering light, repair, shops necessary to maintain mechanical equipment.
- Ancillary to large industries-producing parts and components and rendering services.
- Mining and Quarrying.

What is Industrial Sickness?

- An industrial company (being a company registered for not less than seven years), which has at the end of any financial year accumulated losses equal to or exceeding its entire networth and has also suffered from cash losses in such financial year immediately preceding such financial year.

PROCESS OF SICKNESS

Done by Srivastava and Yadav

Healthy Unit

1. Cash Profit+
2. Net Working Capital+
3. Net Worth+

Tending Towards Sickness

1. Cash Profit-
2. Net Working Capital+
3. Net Worth+

Incipient of Sickness
or More-

Sick
All-

Symptoms of Sickness

- ❖ Persisting shortage of cash
- ❖ Deteriorating financial ratios
- ❖ Widespread use of creative accounting
- ❖ Continuous tumble in the prices of shares
- ❖ Frequent request to banks for loans
- ❖ Delay and default in the payment of statutory dues.
- ❖ Delay in the audit of annual accounts
- ❖ Morale degradation of employees and desperation among the top and middle management level.

CAUSES OF SICKNESS

- 1.EXTERNAL OR EXOGENOUS CAUSES
- Changes in industrial policy of the government
- Inadequate and untimely availability of necessary inputs
- Recessionary trends hovering in the economy
- Frequent strikes and labour unrest
- Shortage of financial resources especially working capital
- Natural calamities
- 2.INTERNAL OR ENDOGENOUS CAUSES
- Arise due to some internal deficiencies in various areas like finance, production, marketing and personnel.

CONSEQUENCES

- ❑ Huge financial losses to banks and financial institutions
- ❑ Loss to employment opportunities
- ❑ Emergence of industrial unrest
- ❑ Adverse effect on prospective investors and entrepreneurs
- ❑ Wastages of scarce resources
- ❑ Loss of revenue to the government.

REMEDIES

- Detection of sickness at the incipient stage
- What cannot be cured should be ended.
- Attitudes of management, financial institutions and labour should match
- A separate division of BIFR should be set up .



THANKYOU