

Research Paper

“ENTERPRISE FAILURES - CAUSES AND REMEDIES”**Prin. Dr. Kishor Nivrutti Jagtap**

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Industrialization is widely recognized not only as one of the importance means to usher in socio-economic transformations and achieving industrial self-sufficiency but also for the accelerated development of agriculture, transport, trade, services and other sectors through the forward and backward linkages. It is a process which accelerates economic growth; effects structural changes in the economy, particularly in respect of source utilization, production functions, income generation, occupational pattern, population distribution and foreign trade and induces social change. Jawaharlal Nehru had emphasized the 'Real progress must ultimately depends on industrialization. Throughout the world, industrialization has indeed become the magic word of the mid-twentieth century'

Industrialization is brought about by the teeming entrepreneurs. Entrepreneurship is one of the most important factors of industrialization. Entrepreneur is a kingpin in the process of economic growth.

1. DEFINITION OF A SICK UNIT

There are different perceptions of the symptoms and characteristics of Industrial Sickness.

To a lay man a sick unit is one which is not healthy.

To an investor, it is one which skips dividend.

To an industrialist, it is a unit which is making losses and tottering on the brink of collapse.

To a banker, it is a unit which has incurred cash losses in the previous year and is

likely to respect the performance in the current and following years.

2. CAUSES OF SICKNESS AND REMEDIES

The industrial units may become sick at different stages and due to different reasons. Indeed some industries are born sick, some achieve sickness and some have sickness thrust upon them.

I] BORN SICK :-

Industries are born sick when they are destined to disaster right from the beginning.

A study conducted by the Institute of Economics, Hyderabad found that 50% of the deed units closed within three years of starting. This means that these units had no survival prospects right from the beginning.

REASONS :-**1. INEXPERIENCE/FAULTY PROJECT PLANNING –**

Lack of experienced promoters, wrong selection of project, faulty project planning etc. may give birth to sick units.

This necessitates that, before venturing into any project, the promoter should assess whether he has the necessary experience in the line chosen and the project chosen is right for him.

The project report when prepared, utmost care be taken to ensure that all relevant data are collected from reliable sources, market survey be done meticulously and financial projections made basing on real situations and not hypothetical.

2. PAUCITY OF FUNDS/FAULTY FIN – MANAGEMENT –

Paucity of funds and faulty financial management may also cause birth of sick units. Units have been found to be under capitalized and the strains of under capitalization becomes evident when the unit becomes operational.

In case of some companies, heavy investment in non-productive capital assets like staff housing projects, even before they commence production shall distort liquidity and cause lot of problems.

Problems also come up due to inadequate provision for contingencies, faulty fund flow/cash flow management. Proper care has to be taken to ensure that financial management is handled meticulously right from the beginning and ensure that liquidity is maintained.

3. TIME/COST OVERRUNS –

Time and cost over runs some times prove to be very disastrous. Particularly in case of larger projects, delay in supply of equipments, both indigenous and imported, slippage in the schedule of civil works, creation of equipment, etc. are not uncommon. Such delays can cause cost escalations leading to capital shortage, liquidity problems, hike in production cost and BEP etc. This calls for timely execution of the project.

4. LOCATIONAL PROBLEMS -

Sickness may arise from locational problems also. It has been observed that high technology based units are established in areas without skilled labour or supporting infrastructure. Industries based on imported raw materials are found in regions without adequate transport and communication system. This calls for assessing the locational advantage before setting up the unit.

5. TECHNOLOGICAL CHOICE –

Technological factors like selection of obsolete

or improper technology or technology which is becoming out dated due to innovations while project is being executed, substandard machinery, wrong collaborations etc. also can cause sickness. Thus selection of appropriate technology which is in line with the ever changing environment is a must.

6. WRONG ASSESSEMENT OF THE MARKET -

Wrong assessment of the market potential or faulty demand forecasting, change in market conditions, including the change in consumer preferences, tastes, competitive situations etc. can also lead to birth of sick units. Hence, proper assessment of market situations is to be made before venturing into any project.

III] ACHIVED SICKNESS :-

Units which achieve sickness are those which fail after becoming operational due to internal causes. Such internal causes which are predominant are the following.

A] INTERNAL CAUSES –

1. POOR MANAGEMENT –

This covers a wide range of disqualifications from inexperience, inefficiency, lack of professional experience, neglect, internal squabbles to delinquency and dishonesty on the part of the promoters etc. are an important cause of sickness. Poor production management, lack of professionalism in management are all due to cause failures. Improved managerial skills and integrity are a must for success of any enterprise.

2. UNWANTED EXPANSION / DIVERSION OF FUNDS -

Unwanted expansion and diversion of resources may also result in sickness. Some units are seen attempting to expand beyond their resources including managerial capabilities. Diversion of resources to start new units or to acquire interest in other concerns without due regard to the capability of the unit to provide such funds, sometimes lead the unit to trouble. Timely expansion and avoidance of diversion of funds is paramount for the growth of a successful enterprise.

3. PERSONAL EXTRAVAGANSAS -

Personal extra vagansas of the promoter, acquisition of un productive fixed assets, corporate luxuries, etc. can also cause sickness.

“BETTER ENSURE THAT CAPITAL IS INVESTED IN PRODUCTIVE USE”

4. POOR INVENTORY MANAGEMENT -

Poor inventory management with respect to finished goods as well as raw materials can also lead the unit to troubles.

“BETTER CONTROL ON INVENTORIES”

5. FAILURE TO MODERNISE -

In a world which is changing very rapidly, if you do not update your technology, your products turned out through absolute technology may not find market.

“BETTER MODERNISE IN TIME”

6. IRRELEVANT PRODUCT MIX –

You should keep a constant watch on the market. The products turned out should be in line with changed market requirements.

“BETTER GIVE WHAT THE MARKET WANTS”

7. POOR LABOUR / MANAGEMENT RELATIONSHIP –

Majority of enterprise failures are consequent to strikes/lock outs etc. resultant to poor industrial relations inside the factory.

“BETTER MOTIVATE WORKERS FOR IMPROVED PRODUCTIVITY”

B] EXTERNAL CAUSES –

Sickness may also be caused also due to factors beyond the control of the unit. Some cause are as follows.

1. Energy crisis arising out of power cuts, shortage of coal etc.
2. In many a cases, units fail to achieve optimum capacity levels due to shortage of raw materials die to production bottle necks in supplying industries.
3. Changes in import/export policies.
4. Lack of adequate infrastructure like transport, communication etc.
5. Credit policies of Government.

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