Concept of Joint Sector

Unit-5

Industrial economics

The term 'joint sector' is applied to an undertaking only when both its ownership and control are effectively shared between public sector agencies and a private group. The basic idea underlying the concept is combination of joint ownership, joint control and professional management

Meaning of Joint Sector:

The joint sector represents a new ideology of economic management geared to sub serve a new economic system.

The term is applied to an undertaking only when both its ownership and control are effectively shared between public sector agencies on the one hand and a private group on the other

The basic idea underlying the concept is combination of joint ownership, joint control and professional management.

Definition of Joint Sector:

The Dutt Committee (Industrial Licensing Policy Inquiry Committee) has defined the concept of the joint sector in the following terms:
The joint sector would include units in which both public and private investments have taken place and where the state takes an active part in direction and control.

According to JRD Tata a joint sector enterprise is intended to form a partnership between the private sector and the Govt. in which the govt. participation of the capital will not be less than 26 p.c., the routine management will be normally in the hands of the private sector partner and control and supervision will be duly exercised by a governing board on which Government is adequately represented.

The Tata concept of joint sector is heavily private sector oriented, whereas the Dutt Committee concept of the joint sector was public sector oriented and aimed at curbing concentration of industries in the private sector.

Features of Joint Sector:

Joint sector enterprises may be brought into being by any of the following ways:

(i) The Central Govt. and private entrepreneurs may jointly set up new enterprises. Sometimes the Central Govt. and one or more State Govts, together may set up enterprises in partnership with the private sector.

(ii) The State Govt. or their industrial development corporations may set up new companies jointly with private partners, involving equity participation by both the partners.

(iii) Public financial institutions may, through equity participation or conversion of loans or debentures into equity, transform enterprises promoted by private entrepreneurs into joint sector companies.

(iv) The existing private enterprises may be transformed into joint sector enterprises by the govt. or govt. companies acquiring a part of the equity or converting debt into equity or by contributing to an increase in the share capital.

(v) The existing public sector companies may be transformed into joint sector enterprises through the sale of some equity shares to private entrepreneurs or the general public.

Industrial Sickness

Definition:

Industrial Sickness, as the name suggests is the state of industrial weakness or illness, i.e. the company fails to earn a reasonable profit. It is the continuous disproportion in the debt-equity ratio and falsification of the financial status of the industrial unit. Industrial Sickness represents a stage wherein the firm is not in a position to generate a surplus on a regular basis and requires external credit, to survive in the market. When a unit is sick, it is not able to finance itself by way of regular operations.

Basically, industrial sickness is a hurdle in the process of industrial growth and development. When a unit is sick it shows signs of financial distress in the form of short term liquidity issues, revenue and operating losses, overuse of external funds until it gets to a position where the company is overburdened with indebtedness and is not able to make enough money to discharge obligations.

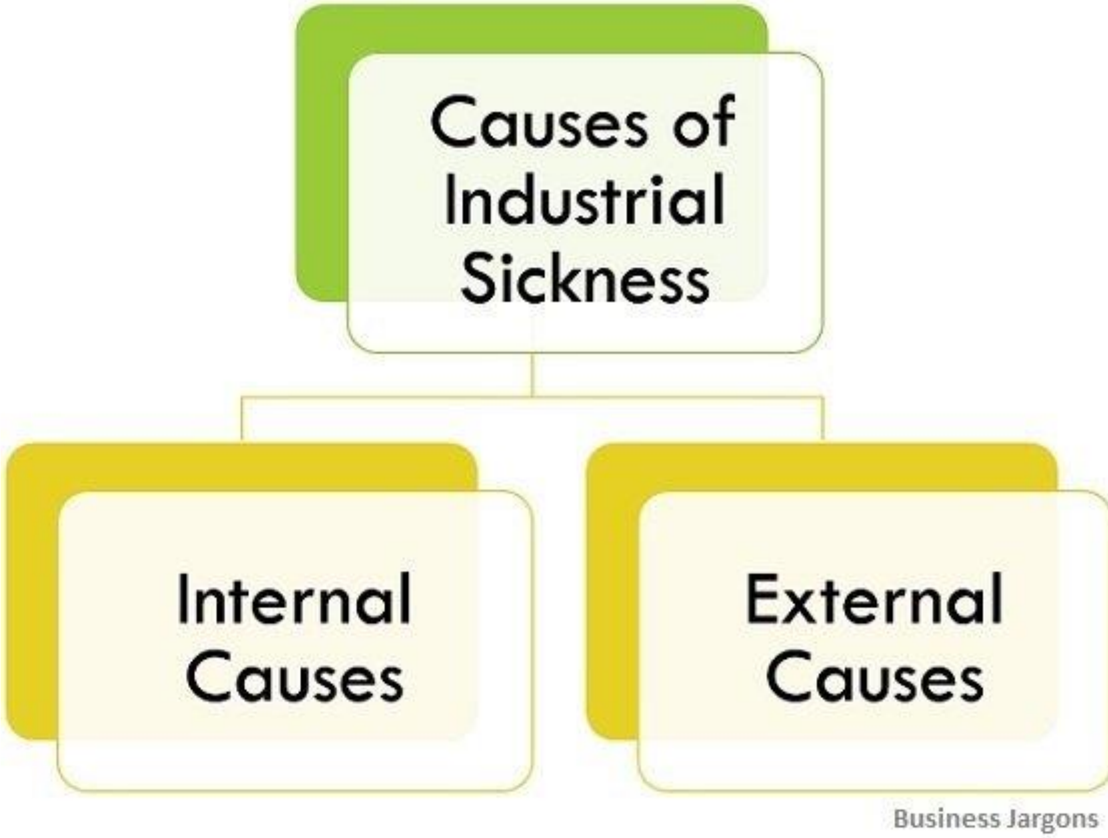
Symptoms of Industrial Sickness

Some of the common symptoms of industrial sickness are listed hereunder:

- Little to no movement of inventory
- Decrease in the company's sales
- Decline in capacity utilization
- Shortage of cash to meet the day to day obligations
- Frequent proposals to extend the credit limit
- Deteriorating financial ratio
- Continuous fall in the prices of shares
- Non-payment or delay in the payment of dues like taxes, interest, dividends, salaries, etc.
- Delay in the audit of accounts.
- Disparities among various levels of management.
- Decline in technological innovations
- Irregularity in the maintenance of books of accounts.
- Overdependence on external funds
- Continuous losses

Causes of Industrial Sickness

When we talk about industrial sickness, it is not caused by a single factor, rather the collective impact of multiple factors results in industrial sickness. The factors causing industrial sickness are classified into two groups – Internal Causes and External Causes, which are discussed



below:

Internal Causes

The causes which are under the control of the enterprise, are regarded as internal causes. It may be a result of some internal insufficiency or shortcoming, in different areas of business. Some of these causes are listed below:

1. **Technical feasibility**
   - Inadequate Technical Knowhow
   - Inappropriate choice of technology
   - Obsolete production process
   - Poor information system
   - Wrong or defective idea of industry
2. **Economic Viability**
   - High cost of inputs
   - High break-even point
   - Excessive investment in fixed assets
   - Non-flexibility of fixed assets

- Underestimation of financial requirements.

3. **Production Management**

- Underutilization of production capacity
- Huge wastage of raw materials and supplies
- Poor maintenance and replacement of plant and machinery
- Wrong location or layout
- Poor quality maintenance

4. **Labour Management**

- Poor performance and productivity of labour
- Huge workforce, than required.
- Lack of skilled labour
- Unreasonably high wage structure.
- Poor handling of labour
- Inadequate training

5. **Marketing Management**

- Lack of market research and feedback
- Unsound pricing policy
- Inappropriate product mix
- Improper demand forecast
- Small customer base
- Poor marketing strategies
- Absence of horizontal and vertical integration

6. **Financial Management**

- Shortage of working capital
- Lack of funds
- Defective Capital structure

7. **Administrative Management**

- Huge expenditure on Research and Development
- Incompetent Management
- Lack of timely diversification.

External Causes

The causes which are beyond the control of the enterprise comes under external causes, which affects the industry as a whole.

1. **General Issues**

- Improper supply or non-availability of important raw material, or availability at higher prices
- Improper supply of critical inputs like power, water and transportation
- Chronic Power storage
- High production cost
- Ignorance of potential market

2. **Government controls and policies**

- Sudden unfavourable change in the policies of the government
- Taxes and duties
- Price control

3. **Market Constraints**

- Innovative technological changes, due to which products turn out as obsolete.
- Recessionary trend in the entire economy, affecting the performance of the firms

4. **Extraneous factors**

- Natural Calamities, like an earthquake, floods, etc
- Political Situation
- Industrial Strikes
- War between countries

What are Sick Companies?

Sick companies can be understood as the industrial units which suffered cash losses in the past, i.e. for two financial years in a row, and is expected to suffer losses in future also. Further, the accumulated losses of the firm tallies or surpasses its net worth, by the end of the second year, provided that the company is registered for 5 years or more.

Also, the company defaults in repayment of debt within any three straight quarters, on-demand made in written form by a creditor for its repayment.